ANNUAL 2021 REPORT
AND FINANCIAL STATEMENTS

HF GROUP
Dreams Made Possible

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Group and Company Information

Directors

The Directors who served during the year and to the date of this report were:

Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH	Chairperson – appointed 21st October 2021
Robert N. Kibaara	Group Chief Executive Officer
Dr. Benson I. Wairegi, EBS	
Dr. Peter K. Munga, EGH	
Dr. Kaushik Manek, EBS	Chairperson – Retired 28th May 2021
Adan D. Mohamed	Retired 28th May 2021
Constance W. Gakonyo, CBS	
Felister W. Kembi	
Gladys M. Karuri	Retired 28th May 2021
Dr. Anthony Omerikwa Opare, MBS	Appointed 18th January 2022
Charles Kimani Njuguna	Appointed 14th January 2022

Company Secretary

Regina Anyika (CPS 880)
Rehani House
Kenyatta Avenue/Koinange Street
P. O. Box 30088 – 00100
Nairobi, Kenya

Share Registrar

Comprite Kenya Ltd
2nd Floor, Cresent Business Centre
Parklands Road
P. O. Box 63428 – 00619
Nairobi, Kenya

Subsidiaries

HFC Limited
HF Development and Investment Limited
First Permanent (East Africa) Limited
HF Bancassurance Intermediary Limited
HF Foundation Limited

Registered Office

Plot No. LR 209/9054
Rehani House
Kenyatta Avenue/Koinange Street
P. O. Box 30088 – 00100

Auditor

PricewaterhouseCoopers LLP
PWC Tower
Waiyaki Way / Chiromo Road, Westlands
P. O. Box 439603 – 00100
Nairobi, Kenya

Banker

HFC Limited
Rehani House,
Kenyatta Avenue / Koinange Street
P. O. Box 30088 – 00100
Nairobi, Kenya

Principal Legal Advisors

Walker Kontos Advocates
Hakika House
Bishops Road
P. O. Box 60680 – 00200
Nairobi, Kenya

HF Group Plc Board of Directors

Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH 67 years
CHAIRPERSON
INDEPENDENT &
NON EXECUTIVE

Robert N. Kibaara, 48 years
GROUP CHIEF EXECUTIVE OFFICER
NON INDEPENDENT
& EXECUTIVE

Dr. Benson I. Wairegi, EBS 69 years
BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE

Dr. Peter K. Munga, EGH 79 years
BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE

Constance W. Gakonyo, CBS 57 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

Felister W. Kembi, 65 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

Charles Kimani Njuguna, 50 years
BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE

Dr. Anthony O. Omerikwa, MBS 45 years
BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE

HFC Limited Board of Directors

Dr. Kaushik Manek, EBS
64 years
CHAIRPERSON
INDEPENDENT &
NON EXECUTIVE

Dr. Benson I. Wairegi, EBS
69 years
BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE

Gladys Ogallo, 55 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

Nicholas Ashford-Hodges,
71 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

Shilpa Haria, 61 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

Robert N. Kibaara, 48 years
GROUP CHIEF EXECUTIVE
OFFICER
NON INDEPENDENT &
NON EXECUTIVE

Jane Kilonzo, 54 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

Dr. Dorcas Muthoni, 43 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

Peter O. Mugeni, 45 years
MANAGING DIRECTOR
NON INDEPENDENT
AND EXECUTIVE

HF Group Plc Board of Directors (Continued)

Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH | Date of Appointment: 21st October 2021
Group Chairperson - Independent and Non Executive

Prof. Mugenda is a seasoned academic researcher and administrator with specialization in Women/Girl's Education, Research Methods & Statistics, Leadership and Governance. She holds a Doctor of Philosophy (Ph.D.), Iowa State University, USA. Master of Business Administration, Eastern and Southern Africa Management Institute, (ESAMI), Arusha, Tanzania. Master of Science (M.Sc.), Iowa State University, USA and Bachelor of Education (First Class Honours), University of Nairobi.

Currently, she is the Chairperson – Kenyatta University Teaching, Referral & Research Hospital; Commissioner – Judicial Service Commission (JSC); Non-Executive Director, UBA Kenya Ltd (March 2016 to date), among others. She was the Vice-Chancellor, Kenyatta University for 10 years – between March 20th 2006 to March 20th 2016. During her tenure, the University grew in both stature and financial strength.

Robert N. Kibaara | Date of Appointment: 1st March 2019
Group Chief Executive Officer - Executive & Non Independent

Robert is a renowned banker, with over 26 years' experience and an excellent record of accomplishment in successfully driving change, revenue mobilization and delivering outstanding business results. He has previously held several leadership positions including Retail Director at NIC Bank; Executive Director - Retail and Business Banking at National Bank of Kenya; Standard Chartered Bank; among other executive positions at Barclays Bank of Kenya.

He holds an MBA Degree from Strathmore University, Bachelor's Degree in Banking and Finance from the University of Sunderland (UK) and a Post Graduate Diploma from the Chartered Institute of Marketing (CIM) UK

Dr. Benson I. Wairegi, EBS | Date of Appointment: 1st April 2008
Non Independent & Non Executive Director

Dr. Benson I. Wairegi, EBS, has worked for Britam Holdings Plc in various capacities and is the immediate former Group Managing Director. He previously worked with PricewaterhouseCoopers. He is the Chancellor of Kenyatta University and also the Chairman of Endeavor Kenya an organization headquartered in New York City that is pioneering the concept of high-impact entrepreneurship in growth markets around the world. He is a former Chairman of the Association of Kenya Insurers (AKI) and former Board Member of the Board of Trustees of the Insurance Training and Education Trust (ITET).

Dr. Wairegi holds an Honorary Doctorate Degree (Honoris Causa) from Kenyatta University, Bachelor of Commerce and Master of Business Administration degrees from the University of Nairobi. He is a Certified Public Accountant (CPA-K). He has significant insurance and financial services industry experience.

Dr. Peter K. Munga, EGH | Date of Appointment: 1st July 2008
Non Independent & Non Executive Director

Dr. Peter K. Munga, EGH, is a Certified Public Secretary with vast experience in both public and private sector management. He holds two honorary doctorates, Doctor of Letters (Honoris Causa) from The University of Nairobi, and Entrepreneurship (Honoris Causa) from Kenya Methodist University. He has a Diploma in Human Resources and Financial Management. He has received the highest presidential award to a civilian, the First Class Chief of the Order of the Burning Spear (CBS) and also the Second Class Order of the Golden Heart of Kenya (EGH) national decoration, for his outstanding contributions in economic development. Dr. Munga is the Chairman of Pioneer Group of Schools, Equatorial Nut Processors Limited, Freshco Seeds Limited and Murang'a Water and Sewerage Company (MWASCO). He is the current Chancellor of Pioneer International University. He is also a Director at Britam Holdings Plc.

HF Group Plc Board of Directors (Continued)

Dr. Anthony O. Omerikwa, MBS | Date of Appointment: 18th January 2022

Independent & Non Executive Director

Dr. Omerikwa, MBS is the CEO/Managing Trustee of the National Social Security Fund. Prior to his current position, he served as the Acting General Manager Operations in the same institution overseeing Information Technology, Human Resource, Administration and Procurement functions.

He holds a Doctoral Degree from the University of Georgia, a Specialist Advanced Degree in Labour, Workforce Development and Education and a Master of Science Degree in Human Resource Development both from Pittsburgh State University, a Bachelor of Arts Degree in Economics from Kenyatta University and a Diploma in Data Processing and Management from Strathmore College. Dr. Omerikwa is an associate member of the Institute of Human Resource Management, Institute of Directors and Kenya Institute of Management.

Constance W. Gakonyo, CPS (K), MCIArb, CBS | Date of Appointment: 17th April 2014

Independent & Non Executive Director

Ms. Gakonyo is a strategic management expert with extensive legal and corporate governance experience. She has held a variety of senior management positions including that of Legal Consultant and head of the performance management portfolio for SABMiller Africa Asia (Pty) Limited. She holds a Law Degree from the University of Nairobi and an MBA in Strategic Management. Constance is a member of the Law Society of Kenya (LSK), Certified Public Secretaries CPS (K) and the Chartered Institute of Arbitrators. She chairs the Group's Nomination and Governance Committee. Constance has also served on the Boards of East African Breweries Limited (EABL) and on the Group Boards of REAL Insurance Co. Limited (Kenya, Malawi, Mozambique, and Tanzania).

Felister W. Kembi | Date of Appointment: 26th September 2016

Independent & Non Executive Director

Ms. Felister W. Kembi joined the board on 26th September 2016. She is a graduate of the University of Nairobi with a Bachelors Degree in Commerce (Accounting option). She is also a CPA (K) holder and a member of the Institute of Certified Public Accountants of Kenya (ICPAK). Felister has vast experience having worked for Kenya Airways, East African Portland Cement, Kenya Times, Bellhouse Mwangi, Ernst & Young and Roussel of EA later known as AgrEvo EA Limited. mainly as an accountant, auditor and Finance Manager. She is also a Director of Felicity Exclusive Designs, a major importer and distributor of clothing and household goods.

Charles Kimani Njuguna | Date of Appointment: 14th January 2022

Non Independent & Non Executive Director

Mr. Njuguna is the Acting Group Managing Director, Britam Holdings PLC.

He has over 20 years' experience in the Financial Services sector where he has managed transformational projects, having worked with ABN Amro Bank, GT Bank, Old Mutual, Family Bank as the Chief Financial Officer and Faulu Micro-Finance Bank as the Managing Director.

He holds an MBA, Masters in Finance from the University of Nairobi. Bsc, Accounting, United States International University – Africa (USIU). Management Program, IESE Business School, University of Navarra (Spain). Program on Strategic Leadership in Inclusive Finance (Harvard Business School), Africa Board Fellowship (ACCION – Center for Financial Inclusion in Partnership with MasterCard Foundation and FMO). Micro, SME and Housing Finance Summer Academy – Frankfurt School of Finance and Management.

Senior Management Team

Robert N. Kibaara, 48 years
GROUP CHIEF EXECUTIVE OFFICER

Peter O. Mugeni, 45 years
MANAGING DIRECTOR, HFC

Tom Shivo, 50 years
DIRECTOR, HUMAN RESOURCES

Regina Anyika, 54 years
DIRECTOR LEGAL DIVISION & COMPANY SECRETARY

Joseph Chikove, 39 years
HEAD OF TREASURY

Kennedy Gachoki, 47 years
HEAD OF RISK

Senior Management Team (Continued)

Joseph Ngare, 52 years
GENERAL MANAGER, AUDIT

David Igweta, 50 years
CHIEF OPERATIONS OFFICER

Patrick Njunge, 42 years
DIRECTOR, RETAIL

Joseph Kamau, 37 years
EXECUTIVE DIRECTOR, HF DEVELOPMENT AND INVESTMENT LTD

Tonney A. Mugah, 39 years
DIRECTOR, STRATEGY & BUSINESS PERFORMANCE

Sammy Kamanthi, 47 years
GROUP CHIEF FINANCE OFFICER

Senior Management Team

Robert N. Kibaara
Group Chief Executive Officer

Robert is a renowned banker, with over 26 years' experience and an excellent record of accomplishment in successfully driving change, revenue mobilization and delivering outstanding business results. He has previously held several leadership positions including Retail Director at NIC Bank; Executive Director - Retail and Business Banking at National Bank of Kenya; Standard Chartered Bank; among other executive positions at Barclays Bank of Kenya.

He holds an MBA Degree from Strathmore University, Bachelor's Degree in Banking and Finance from the University of Sunderland (UK) and a Post Graduate Diploma from the Chartered Institute of Marketing (CIM) UK.

Peter O. Mugeni
Managing Director, HFC

Peter is a seasoned Banker, with over 15 years' experience in Credit Risk Management and Operations, as well as leading large teams both regionally and across Africa. Through his experience, he has formulated and implemented business strategies which have made significant turnaround impacts to the Organizations he has worked for. He joined HF Group from Standard Bank of South Africa where he was Credit Executive responsible for Sanctioning and Monitoring of Large Exposures from Stanbic Africa entities (including Kenya). Prior to that, he was the Head of Credit, Personal and Business Banking for Stanbic Bank Tanzania for 5 years.

Peter has previously worked at HF Group Plc as an Accounts Officer, Credit Analyst and Assistant Credit Manager, and with Stanbic Bank Kenya Limited as Credit Origination Manager (Corporate & Investment Banking), Credit Evaluation Manager (Personal and Business Banking) and Head of Credit, Business Banking. He holds a Master of Science in Finance (Banking Option) and a Bachelor of Commerce degree (Finance Option) both from the University of Nairobi. In addition, he is a Certified Retail Banker (CRB), Certified Chartered Accountant (ACCA) and a fellow of the Retail Banking Academy of the United Kingdom.

Tom Shivo
Director, Human Resources

Tom is a seasoned HR practitioner with 26 years working experience. He has previously worked at Safaricom as the Head of Business Partners (Commercial Divisions); Airtel Africa as the HR Director (Talent Management) and had a stint in Nigeria as the HR Director for Airtel Nigeria. He has also worked at Kenya Airways, where he was the Head of HR Relationships & Reward, and also acted as the HR Director for one year. At Coca-Cola Sabco, he was the Country HR Manager for the Kenya business, and previous to this he was the HR Manager at The Nairobi Hospital. He has been a HR consultant with Hawkins Associates /KHI Training, and a teacher in his early career.

Tom holds an MBA in Human Resources from University of Nairobi, a Bachelor of Education from Kenyatta University and a Higher National Diploma in Human Resources. He also holds an Advanced Leadership certificate from GIBBS Institute (Pretoria University) and Christ Church (Oxford University).

Regina Anyika
Director, Legal Division and Company Secretary

Regina is a seasoned legal professional with expertise in governance, commercial law, labour relations and dispute resolution, deal structuring for Capital Raising including corporate bonds, Rights Issues, Mergers and Acquisitions. She joined HF Group Plc in September 2013 and is currently the Company Secretary and Director, Legal. Prior to joining the bank, Regina worked with the Co-operative Bank of Kenya Limited and Senator Cards Limited. She holds an MBA (Employee Relations) from the University of Leicester, LLB from the University of Nairobi, Diploma from the Kenya School of Law and is a Certified Public Secretary of Kenya (CPS K). She is an

Senior Management Team (Continued)

award winning legal expert, having been recognized in the 2015 Legal 500's list of the top 100 corporate counsel in Africa (www.Legal500.com).

Joseph Chikove
Head of Treasury

Joseph is a seasoned treasury professional, with over 13 years' experience in the banking industry across the East African Region. He has had an excellent track record orchestrating high team performance in the treasury business.

Prior to joining HF Group Plc in 2019, Joseph held various positions including Head of Treasury at NIC Bank Uganda, Senior Treasury Dealer at NIC Bank Tanzania and Treasury Dealer at NIC Bank Kenya and Fina Bank Kenya Limited.

Joseph is currently undertaking his Master's in Business Administration from Edinburgh Business School and holds a Bachelor of Commerce degree from University of Nairobi. He also holds an ACI Dealing Certificate and is a member of the Financial Markets Association of Kenya (ACI Kenya) and a student member of Chartered Institute for Securities and Investments.

Kennedy Gachoki
Head of Risk

Kennedy joined HF Group Plc in November 2015 to oversee the Enterprise Risk Management Division with functional reporting responsibilities to Board Risk Committee. He joined the Group from Central Bank of Kenya (CBK) where he had served since June 2008, in Bank Supervision Department. He has vast experience in banking risk management processes including in risk identification, risk measurement, risk control and risk monitoring. He has also participated in several international and local forums on banking risk management including compliance related trainings.

Kennedy holds a Master Degree in Business Administration (MBA-Finance) from the University of Nairobi and a Bachelor of Commerce Degree in Accounting. He is also a Certified Public Accountant CPA (K).

David Igweta
Chief Operations Officer

David is an astute ICT and operations expert with over 23 years of experience in Information Technology and Banking. Before joining HF Group Plc, he worked as the Head of Technology and Operations at Spire Bank, GM ICT at NIC Bank, Soluziona (an entity affiliated to the Spanish Power company as a systems consultant) and Car and General.

David has expertise in policy formulation and best practice in ICT governance standards implementation, project and program management, IT Security and key strategic road map formulation and roll-out. He is well versed with IT and operational trends in banking and payment systems with deep involvement in Fin-tech engagements and partnerships.

David holds a degree in Mathematics and Computer Studies from Kenyatta University and various accreditation and certifications. He brings this expertise and experience to HF Group Plc.

Patrick Njunge
Director, Retail

Patrick is a seasoned results-driven banker with 12 years' experience in banking. He has good experience in building business units, driving innovation and entrenching excellence in customer experience. Patrick has managed various business units and has broad experience in digital and retail banking. Some of the roles he has managed in the past include Portfolio Manager - Lending; Head of Credit Cards business, Head of Retail Products and Segments, and Head of Digital Business across 3 banks; NIC Bank, National Bank and Standard Chartered Bank.

Patrick is a holder of a Global Executive MBA from USIU in partnership with Frankfurt School of Business and a Bachelor of Arts Degree in Economics, among other qualifications.

Senior Management Team (Continued)

Joseph Ngare
General Manager, Audit

Joseph joined HF Group Plc on 19th April, 2010 as the Head of Audit. Prior to joining the Company, Joseph worked with Gulf African Bank and Cooperative Bank of Kenya Limited. Joseph holds a Bachelor of Commerce degree (Finance Option) and is a qualified Certified Public Accountant (Kenya), Certified Internal Auditor (CIA) and a Certified Quality Assessor (QA).

Toney Agira Mugah
Director, Strategy & Business Performance

Tonney is a seasoned Banker, with over 14 years' experience in strategy development & execution, business intelligence and analytics, retail banking and products management. Through his experience, he has been able to achieve business results which have made significant turnaround impacts to the organizations he has worked for, including growth in revenue and profitability; process improvements; development of business scorecards and frameworks that created excellence in market execution.

He has previously held several senior roles including Head of Products, Head of Retail Strategy & Analytics at NIC Bank; Head of Retail Lending, and Manager Business Intelligence & Analytics at National Bank of Kenya; and a Business Analyst among other roles at Barclays Bank of Kenya.

Tonney holds a Bachelor's of Science degree (Biomedical Science & Technology - Pharmacology option) and is currently undertaking his MBA. He is a data and analytics enthusiast and has several certifications in this field including predictive analytics and propensity modeling certifications. He is also a yellow belt holder of the Lean six sigma process re-engineering program.

Sammy Kamanthi
Group Chief Finance Officer

Sammy is a finance professional and a seasoned banker with over 19 years track record in the banking industry. His role includes providing leadership in financial forecasting & budgets, overseeing the preparation of financial reports as well as advisory on long term business and financial planning.

Prior to joining HF Group Plc, he held the position of General Manager and Head of Finance for the Kenya operations at Equity Bank. He has also served as the Finance Manager & Head of Financial Reporting at the same institution. Sammy has also held other positions including Accountant at Kenya Airways; Graduate Management Trainee, Senior Bank Officer and Assistant Finance Manager at the Central Bank of Kenya.

Sammy holds a Bachelor of Commerce Degree in Accounting from Kenyatta University, Master's Degree in International Development Studies, Development Economics from National Graduate Institute of Policy Studies – Tokyo, Japan and Master in Business Administration (MBA) – Finance, from Edinburgh Business School (EBS), Heriot -Watt Univ – Edinburgh. He is a Certified Public Accountant CPA (K) and a member of the Institute of Certified Public Accountants (ICPAK).

Joseph Kamau
Executive Director, HF Development & Investment Limited

Joseph Kamau is a seasoned banker with over 10 years experience in corporate banking. Before Joining HF Group Plc in April 2019, he was a senior corporate banker with NIC Bank. Joseph is responsible for providing leadership for the Group's Property Development and Investment subsidiary. Joseph has a deep understanding of structured finance transactions which is critical in execution and delivery of the projects and investments undertaken by the group. He is currently undertaking an MBA, Strategic Management from Strathmore Business School. He holds a Bachelor of Commerce Degree from the University of Nairobi, CPA-K and a Certified Investments and Securities Analyst of East Africa.

HF Bancassuarance Intermediary Limited Directors

Dr. Benson I. Wairegi, EBS
69 years
BOARD CHAIRMAN
NON INDEPENDENT &
NON EXECUTIVE

Constance W. Gakonyo, CBS
56 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

Robert N. Kibaara, 48 years
GROUP CHIEF EXECUTIVE
OFFICER
NON INDEPENDENT &
NON EXECUTIVE

Patrick Njunge, 42 years
BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE

Tonney A. Mugah, 39 years
BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE

Maureen Stephyne, 36 years
PRINCIPAL OFFICER

Notice of Annual General Meeting

To the Shareholders of HF GROUP Plc

NOTICE IS HEREBY GIVEN that in accordance with Articles 59 and 61 of the Articles of Association of the Company, the 56th Annual General Meeting of the Company will be held via electronic communication on Friday, 20th May 2022 at 10.00 a.m. to conduct the following business:

1 To table the proxies and note the presence of a quorum.
2 To read the notice convening the meeting.
3 To receive and, if approved, adopt the audited Balance Sheet and Accounts for the year ended 31 December 2021, together with the Chairlady's, the Directors' and Auditor's Reports thereon.
4 To note that the Directors do not recommend the payment of a dividend for the year ended 31st December 2021.
5 To elect Directors:
   a) In accordance with Article 105 of the Company's Articles of Association the following Directors retire by rotation and being eligible, offer themselves for re-election.
   - Dr. Benson I. Wairegi, EBS
   - Ms. Constance W. Gakonyo, CBS
   b) In accordance with Article 104 of the Company's Articles of Association the following Directors retire at this meeting, and being eligible, offer themselves for re-election.
   - Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH
   - Mr. Charles Kimani Njuguna
   - Dr. Anthony Omerikwa Opare, MBS
6. In accordance with the provisions of Section 769 of the Companies Act, 2015 the following Directors, being members of the Group Board Audit & Risk Committee be elected individually to continue to serve as members of the said Committee:-
   - Ms. Felister W. Kembi
   - Dr. Anthony Omerikwa Opare, MBS
7. To approve the Directors Remuneration Report as detailed in the Annual Report for the year ended 31st December 2021.
8. To appoint PricewaterhouseCoopers (PWC) Kenya as the auditors of the Company in accordance with Sections 721 of the Companies Act, No. 17 of 2015 and to authorize the Directors to fix the remuneration of the auditors in terms of section 724 of the said Companies Act.
9. To consider any other business for which due notice has been given.

BY ORDER OF THE BOARD
Regina Anyika
Company Secretary
P.O. Box 30088, GPO 00100
NAIROBI
Date: 27th April 2022

NOTES:

1. Shareholders wishing to participate in the meeting should register for the AGM by doing the following:
   a) Dialing *483*816# for all networks and follow the various prompts regarding the registration process; or
   b) Sending an email request to be registered to hfgroupagm@image.co.ke; or
   c) Shareholders with email addresses will receive a registration link via email through which they can use to register.

In order to complete the registration process, shareholders will need to have their ID/Passport Numbers which were used to purchase their shares at hand.
For assistance shareholders (whether in Kenya or outside) should dial the following helpline number: (+254) 709 170 000 from 8:00 a.m. to 5:00 p.m. from Monday to Friday. A Shareholder domiciled outside of Kenya can send an email to Image Registrars via hfgroupagm@image.co.ke.

2. Registration for the AGM opens on **Wednesday, 27th April 2022 at 9:00 am** and will close **on Wednesday,18th May 2022 at 11.00 a.m.** Shareholders will not be able to register after this time.
3. In accordance with Article 160 of the Company's Articles of Association, the following documents may be viewed on the Company's website www.hfgroup.co.ke **(a)** a copy of this Notice and the proxy form; **(b)** the Company's Annual Report & Audited financial statements for the year ended 31st December 2021.

   The reports may also be accessed upon request by dialing the USSD code above and selecting the Reports option. The reports and agenda can also be accessed on the livestream link.

4. Any shareholder who is entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote in his stead. Such proxy need not be a member of the Company.
5. A proxy form is provided with the Annual Report. The proxy form can also be obtained from the Company's website www.hfgroup.co.ke or from Image Registrars Limited, Absa Towers (formerly Barclays Plaza), 5th Floor, Loita Street, P. O. Box 9287 – 00100, Nairobi, Kenya. Shareholders who do not propose to be at the Annual General Meeting are requested to complete and return the proxy form to Image Registrars Limited, or alternatively to the Registered Office of the Company so as to arrive not later than **Wednesday, 18th May 2022 at 10.00 a.m.**
6. Duly signed proxy forms may also be emailed to info@image.co.ke in PDF format. A proxy form must be signed by the appointor or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under the Company's common seal or under the hand of an officer or duly authorized attorney of such body corporate.
7. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so on or before **Wednesday, 18th May 2022 at 10.00 a.m.** by: (a) sending their written questions by email to agmquestions@hfgroup.co.ke; or (b) to the extent possible, physically delivering or posting their written questions with a return physical, postal or email address to the registered office of the Company or P.O. Box 30088 – 00100, Nairobi, or to Image Registrars offices at the address above. (c) Shareholders who will have registered to participate in the meeting shall be able to ask questions via sums by dialing the USSD code above and selecting the option (Ask Question) on the prompts (d) During the AGM, shareholders can send their questions by using the "Questions" tab on their livestream link.

   Shareholders must provide their full details (full names, National ID/Passport Number/CDSC Account Number) when submitting their questions or clarifications.

8. The Company's directors will provide written responses to the questions received to the return physical, postal or email address provided by the Shareholder no later than 12 hours before the start of the AGM. A full list of all questions received, and the answers thereto will be published on the Company's website not later than 12 hours before the start of the AGM.
9. Registered Shareholders will receive an SMS prompt, with instructions, on their registered mobile phone number alerting them to Propose and Second the resolutions put forward in the notice.
10. The AGM will be streamed live via a link which shall be provided to all shareholders who will have registered to participate in the AGM. Duly registered shareholders and proxies will receive a short message service (SMS/USSD) prompt on their registered mobile numbers, 24 hours prior to the AGM acting as a reminder of the AGM. A second SMS/USSD prompt shall be sent one hour ahead of the AGM, as a reminder that the AGM will begin in an hours' time and providing a link to the live stream.
11. Shareholders and proxies who have registered to attend the AGM may follow the proceedings using the live stream platform, access the agenda and vote (when prompted by the Chairlady) via the USSD prompts.
12. Results of the resolutions voted on will be published on the Company's website i.e. www.hfgroup,co.ke within 48 hours following conclusion of the AGM on the Company's website.

NOTISI KUHUSU MKUTANO MKUU WA PAMOJA WA MWAKA

Kwa wanahisa wa HF GROUP Plc

NOTISI INATOLEWA HAPA KWAMBA, kufungamana na vifungu nambari 59 na 61 vya sheria za kampuni, mkutano wa 56 wa pamoja wa mwaka wa kampuni utafanyika kwa mbinu ya mawasiliano ya kielektroniki Ijumaa **Mei 20,2022** kuanzia **saa tano asubuhi** ili kutekeleza shughuli zifuatazo za kibiashara:

1 Kuwataja mawakala na kuzingatia akida ya mkutano.
2 Kusoma Notisi ya kuitishwa kwa Mkutano.
3 Kupokea na endapo itapitishwa , kuidhinisha mizania iliyofanyiwa ukaguzi na hesabu za pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2021 pamoja na ripoti kutoka kwa Mwenyekiti, Wakurugenzi na Wakaguzi wa Pesa.
4 Kutambua kwamba, wakurugenzi hawatoi pendekezo lolote la malipo ya mgao wa faida kwa kipindi cha mwaka uliomalizika Desemba 31, 2021.

5 Kuwachagua wakurugenzi:-
   a) Kufungamana na kifungu nambari 105 cha sheria za kampuni, wakurugenzi wafuatao wanastaafu kwa zamu na kwa kuwa hali inawaruhusu wanajitokeza ili kuchaguliwa tena.
   - Dkt. Benson I. Wairegi, EBS
   - Bi. Constance W. Gakonyo, CBS

   B) Kufungamana na kifungu cha namabri 104 cha sheria za kampuni, wakurugenzi wafuatao wanastaafu wakati wa mkutano huu na kwa kuwa hali inawaruhusu, wanajitokeza ili kuchaguliwa tena.
   - Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH
   - Bw. Charles Kimani Njuguna
   - Dkt. Anthony Omerikwa Opare, MBS

6) Kufungamana na vipengele sehemu ya 769 vya sheria za makampuni ya mwaka 2015 , wakurugenzi wafuatao ambao ni wanachama wa kamati ya kundi kuhusu uhasibu na hatari wachaguliwe kibnafsi ili waendelee kuhudumu kama wanachama wa kamati husika. -
   - Bi. Felister W. Kembi
   - Dkt Anthony Omerikwa Opare, MBS

7) Kuidhinisha ripoti ya marupurupu ya wakurugenzi kama ilivyofafanuliwa kupitia ripoti ya mwaka kwa kipindi cha mwaka uliomalizika Desemba 31, 2021.
8) Kuteua PricewaterhouseCoopers (PWC) kama wakaguzi wa pesa za kampuni kwa mujibu wa sehemu ya 721 ya sheria za kampuni nambari 17 ya mwaka 2015 na kuwaamuru wakurugenzi kuamua marupurupu ya wakaguzi wa pesa kufungamana na sehemu ya 724 ya sheria zilizotajwa za kampuni.
9) Kuzingatia shughuli nyingine zozote za kibiashara ambazo notisi yake itakuwa imetolewa

KWA AMRI YA HALMASHAURI
Regina Anyika
Katibu wa Kampuni
SLP. 30088, GPO 00100
NAIROBI
Tarehe: 27 April, 2022

NUKUU:
1. Wanahisa wanaotaka kuhudhuria sharti wajisajili kwa Mkutano mkuu wa pamoja wa mwaka kwa kufuata maagizo yafuatayo:
   a) Kupiga simu nambari ***483*816#** kupitia mitandao yote na kufuata maelekezo mbali mbali kuhusiana na usajili ;au
   b) Kutuma ujumbe kupitia barua pepe na ombi la usajili kwa : hfgroupagm@image.co.ke; au;
   c) Wanahisa walio na anwani ya barua pepe watapokea kiunganishi kupitia anwani hiyo ambayo wataitumia kwa sababu za usajili

Ili kukamilisha hatua za usajili, wanahisa watahitajika kuonyesha nambari ya kitambulishoi cha uraia/ paspoti zilizotolewa

NOTISI KUHUSU MKUTANO MKUU WA PAMOJA WA MWAKA (INAENDELEA)

wakati wa ununuzi wa hisa au nambari zao za akaunti ya CDSC. Ili kupata usaidizi, wanahisa wanaweza kupiga simu kupitia nambari ya usadizi (+254) 709 170 000 kuanzia saa tatu asubuhi hadi saa tisa alasiri siku za Jumatatu hadi Ijumaa. Wanahisa walio nje ya Kenya wapige simu kupitia nambari ya usaidizi wakati wa usajili.

2. Usajili kwa Mkutano mkuu wa pamoja wa mwaka utaanza siku ya **Jumatano Aprili 27, 2022** saa tatu asubuhi na kufungwa **Jumatano Mei 18, 2022** saa tano asubuhi. Wanahisa hawataruhusiwa kujisajili baada ya muda huu kupita.
3. Kwa mujibu wa kifungu nambari 160 cha sheria makampuni , hati zifuatazo zinaweza kutazamwa kupitia wavuti wa kampuni www.hfgroup.co.ke (a) Nakala ya Notisi hii pamoja na uwakala; (b) Ripoti ya mwaka ya Kampuni na taarifa za matumizi ya pesa iliyokaguliwa kufikia Desemba 31, 2021.

   Ripoti hizi pia zinaweza kupatikana baada ya kutumwa kwa ombi kupitia USSD Code iliyoko hapo juu na kubonyeza Reports option. Ripoti na agenda zinaweza pia kupatikana kupitia kiunganishi cha moja kwa moja.

4. Mwanahisa yeyote aliye na uwezo kuhudhuria na kupiga kura wakati wa mkutano wa pamoja wa mwaka ana uhuru kumteua wakala kufika na kupiga kura hiyo kwa niaba yake. Si lazima kwa wakala kama huyo kuwa mwanachama wa kampuni.
5. Fomu ya uwakala imeambatishwa na ripoti hii ya mwaka. Fomu hii inaweza pia kupatikana kupitia wavuti wa kampuni; www.hfgroup.co.ke au Image Registrars Limited Absa Towers (Zamani Barclays Plaza), orofa ya 5, Loita Street, S.L.P 9287 – 00100, Nairobi, Kenya. Wanahisa ambao wanapendekeza kutohudhuria mkutano wa pamoja wa mwaka wanaombwa kujaza fomu ya uwakala na kuirejesha kwa *Image Registrars Limited* au kwa ofisi ya kampuni iliyosajiliwa na kufika kabla au ifikiapo Jumatano **Mei 18, 2022 saa nne asubuhi**
6. Fomu ya uwakala iliyotiwa sahihi kikamilifu inaweza kutumwa kupitia barua pepe info@image.co.ke kwa mfumo wa *PDF.* Ni lazima kwa fomu ya uwakala iwe imetiwa sahihi na mwenye kuteua au wakala wake kwa njia ya kuandika. Endapo mteuzi ni shirika, nakala inayomteua wakala iwe imepigwa mhuri wa kampuni au kutiwa sahihi na afisa aliyeidhinishwa na wakili wa shirika kama hilo.

7. Wanahisa wanaotaka kuuliza maswali yoyote au ufafanuzi kuhusiana na mkutano wa pamoja wa mwaka wanaweza kufanya hivyo kabla ya Jumatano Mei 18, 2022.kwa-; (a) kutuma maswali waliyoandika kwa agmquestions@hfgroup.co.ke; au (b) ikiwezekana kuwasilisha kwa njia ya moja kwa moja au kutuma kwa njia ya posta pamoja na anwani ya kurudisha majibu au anwani ya barua pepe kwa ofisi ya kampuni iliyosajiliwa au S.L.P 30088 – 00100, Nairobi, au kwa ofisi za Image Registrars kupitia anwani zilizotajwa hapo juu. (c) wanahisa ambao watakuwa wamejisajili kuhudhuria mkutano wataweza kuuliza maswali kwa kutuma ujumbe mfupi kwa kupiga USSD iliyoko hapo juu na kuchagua mfumo wanaotaka (kuuliza swali) kwenye chaguo (d) wakati wa mkutano wa pamoja wa mwaka, wanahisa wanaweza kutuma maswali yao kwa kutumia kibonyezo '' Questions'' kwenye kiunganishi cha habari za moja kwa moja.

   Ni lazima kwa wanahisa kutoa maelezo yao kamili (majina kamili, nambari ya kitambulisho/ akaunti ya CDSC) wakati wanapotuma maswali yao au ufafanuzi.

8. Wakurugenzi wa kampuni watatoa majibu yaliyoandikwa kuhusu maswali yaliyopokelewa kupitia anwani ya majibu , posta au barua pepe iliyotolewa na mwanahisa saa 12 kabla ya kuanza kwa mkutano wa pamoja wa mwaka. Orodha kamili ya maswali yaliyopokewa na majibu yatachapishwa kupitia wavuti wa kampuni saa 12 kabla ya kuanza kwa mkutano mkuu wa pamoja wa mwaka.
9. Wanahisa waliosajiliwa watapokea ujumbe mfupi ukiwa na maelezo kuhusu nambari zao za simu zilizosajiliwa kuwaarifu kutoa pendekezo na kuidhinisha maazimio yaliyolewa kwenye notisi.
10. Mkutano wa pamoja wa mwaka utaendeshwa kwa njia ya moja kwa moja (stream live) kupitia kiunganishi ambacho kitatolewa kwa wanahisa wote ambao watakuwa wamejisajili kushiriki mkutano huo. Wanahisa waliosajiliwa kikamilifu pamoja na mawakala watapokea ujumbe mfupi (SMS/USSD) kupitia nambari zao za simu zilizosajiliwa saa 24 kabla ya kuanza kwa Mkutano wa pamoja wa mwaka kuwakumbusha kuhusu mkutano. Ujumbe wa pili wa SMS/USSD utatumwa saa moja kabla ya kuanza kwa mkutano kuwakumbusha kwamba mkutano wa pamoja wa mwaka utaanza kwa muda wa saa moja ijayo na kuwapa kiunganishi ili kufuatilia matukio moja kwa moja.
11. Wanahisa na mawakala ambao wamejisajili kuhudhuria mkutano wa pamoja wa mwaka wanaweza kufuatilia matukio moja kwa moja, kusoma agenda na kupiga kura (watakaposhauriwa na mwenyekiti) kupitia njia ya USSD.
12. Matokeo kuhusu maazimio yaliyopitishwa yatachapishwa kupitia wavuti wa kampuni ambao ni www.hfgroup.co.ke chini ya muda wa saa 48 baada kukamilika kwa mkutano Mkuu wa pamoja wa Mwaka kupitia wavuti wa kampuni.

Group Overview

HF Group Plc, was registered as a non–operating holding company (under the Banking Act Cap.488), regulated by the Central Bank of Kenya (CBK) in August 2015. The non-operating holding company oversees the operations of the Group subsidiaries. The Group structure was set up to enhance corporate governance, provide oversight in management of the subsidiaries and ensure optimal growth at both Group and subsidiary levels.

The Group is listed on the Nairobi Securities Exchange (NSE), and has four operational subsidiaries:

- HFC Limited - licensed to carry out the business of mortgage finance as well as banking services under the Banking Act.
- HF Development and Investment Limited - (formerly known as Kenya Building Society Limited) undertakes real estate development.
- HF Bancassurance Intermediary Limited - provides bancassurance solutions
- HF Foundation Limited - The Group's social investment arm

Our Mission

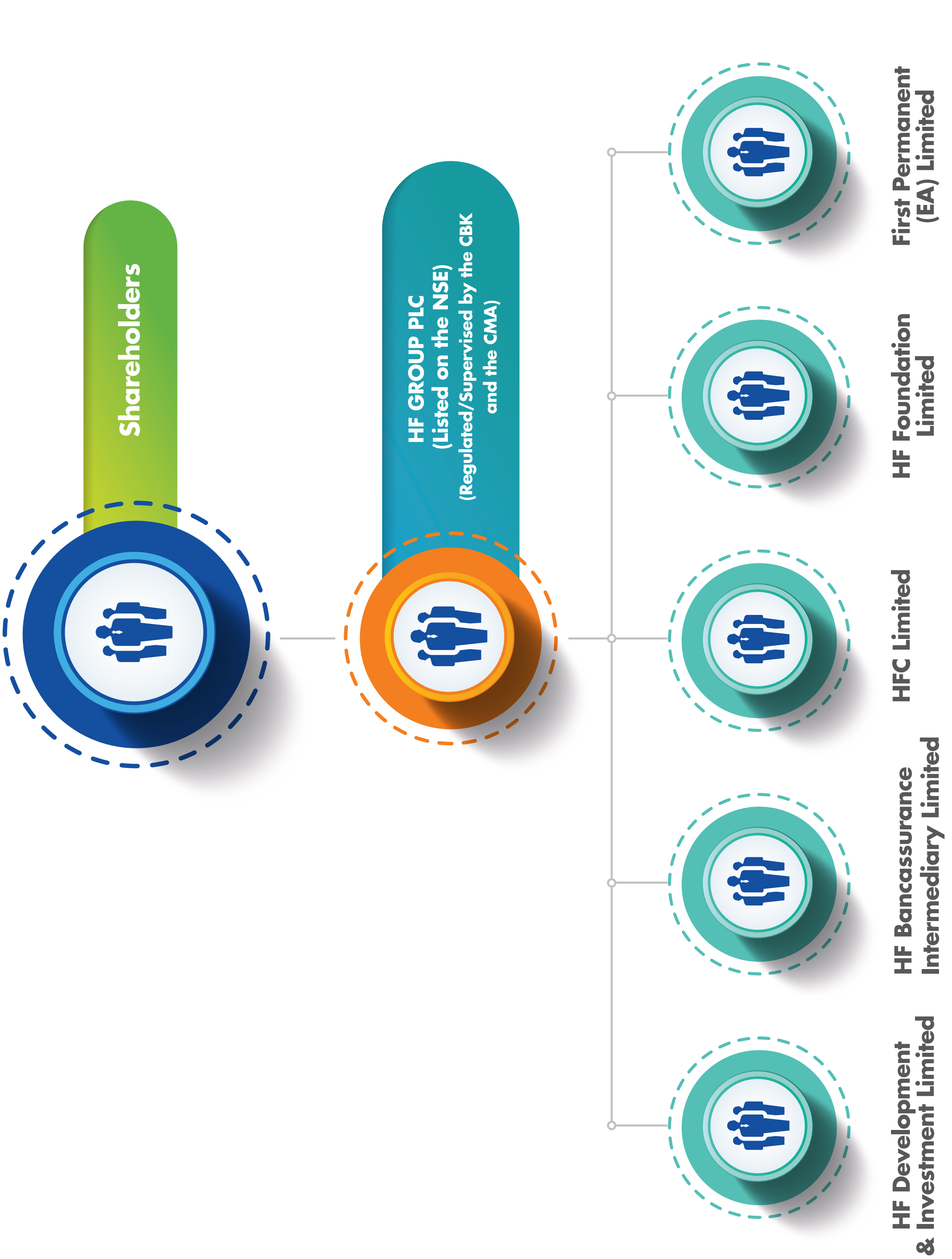
To be the leading provider of integrated solutions for the acquisition, development and improvement of property in Kenya.

Our Vision

We will be the leading integrated solutions enabler for the property industry. We will offer innovative products and services delivered under one roof by exceptionally committed people to enhance shareholder value. We will operate across the property value-chain as suppliers and financiers that offer unique solutions to all while being environmentally responsible.

Group Overview (Continued)

Group Structure



Our Strategy & Values

KEY THEMES

1 Reposition

Achieve a complete shift of perception from a single product house to a **full service niche bank offering superior capabilities for the selected segments**

2 Scale up the Engines of Growth

Achieve the desired growth in **Commercial, SME, Institutional, affluent, mass affluent and Diaspora segments** to build a less concentrated, stable lower-cost funding base and **selectively increase exposure in segments with higher risk-return**

3 Drive Efficiency Through Technology

Provide **capabilities that will enable** delivery of the **brand promise** to the customer **cost effectively**

4 Beyond Service Excellence

Deliver an **omni channel experience** with an **"all under one roof"** product & service suite for our chosen segments

5 Solidify the Capital Base

Set up the bank to be able to accommodate accelerated investment and returns in the selected segments by having a **healthy capital base (Tier I & II)**

6 Culture and Capabilities

Create a **Performance Culture** with a superior EVP **(Bias for Execution)** by investing in the people capabilities required to ensure sustained performance

CORPORATE VALUES

- Integrity
- Innovate
- Teamwork
- Customer Centric
- Stewardship

The **HF** *way*

CHAIR PERSON'S **REPORT**

Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH

Group Chairperson

Chairperson's Statement
For The Year Ended 31 December 2021

Dear Esteemed Shareholders

Welcome to the 56th Annual General Meeting (AGM) of the HF Group Plc. This is my maiden AGM, having joined this great organization on the 21st of October 2021. I joined the Group at a time of transition and as I look back at the progress made over the last year, I have no doubt that the ship is steering in the right direction. The past year saw the Group adjusting to the impact of the COVID-19 pandemic and also marked the reset of the Business Transformation Strategy. This strategy is bearing the desired results and has pivoted the Group for the next phase of the transformation journey. We now have in place a business that is fit for purpose.

The Group has shrunk its loss-making position to Loss before tax of Shs. 876 million against Shs.1.8 billion during a similar period in 2020. We are now firmly on the right trajectory to get back into profitability. The Group also leveraged the expertise of the Management and Board members in unlocking the non-performing loans and collectively managed to bring down these by Shs. 2.1 billion.

Pivoting for Growth

At the end of 2021, the Board of Directors approved the institution of a new strategy, which is a natural progression from the lapsed business transformation strategy. This strategy focuses on creating market awareness of our repositioning to full service bank offering, which is a critical success factor. It also focuses on building a responsive brand that leverages research to develop a robust product and service offering, with enhanced capabilities and excellence in customer experience. Our ambition is to build a sustainable bank that delivers value to all stakeholders.

The mandate of the Board is to provide oversight and leadership to the management team and ensure that the business maintains rigor in the execution of our strategy and create an enabling environment to deliver on the transformation agenda.

Delivering value to our shareholders

The Board is committed to offer leadership required to create an enabling transformative environment where the management and staff of the Group continue to work together to unlock opportunities for growth and expansion of the business.

With this backdrop, the work is cut out for the Board. Our key role will now and going forward be to awaken the giant inside HF Group, to unlock business growth and shared value. The Group has invested in some of the best talent in the industry to deliver value through relevant product offering, transformation of processes and customer experience. To enhance these, we will continue to leverage research and stakeholder engagement to ensure that our offering is aligned to the needs of our customers and changing industry trends.

Our People

Our employees are the cornerstone of our business and the Board is committed to building an empowered staff complement that is fit for purpose. During the period, we launched our culture change journey and refreshed our values to align with the business ambition. The objective is to scale up our staff and build a high performing team that delivers on our business goals. We continue to embrace diversity and have focused recruitments to deliberately provide opportunity to talent from marginalized communities.

Corporate Governance

I am extremely pleased to welcome Dr. Anthony Omerikwa and Mr. Charles Kimani Njuguna who have joined the Group Board of Directors and Ms. Jane Kilonzo who has joined our banking subsidiary HFC Board as an Independent and Non - Executive Director. These new Board members have a wealth of experience and leadership acumen cutting across different sectors and will bring invaluable expertise to the Group.

In the same breadth, I would like to thank Dr. Kaushik Manek and Ms. Constance Gakonyo, both of whom served as interim Board Chairs and did a great job shepherding the organization during unprecedented times occasioned by the Covid-19 pandemic and ensured a smooth transition. Both Directors continue to serve as Chair of HFC, our banking subsidiary and Group Board Member respectively.

The period also saw the retirement of three Group Board members: Ms. Gladys Karuri retired to pave way for new representation of Britam Holdings Plc on the HF Group Board; Mr. Adan Mohammed retired as a Director of HFDI Limited, HFC Limited and HF Group

Chairperson's Statement For The Year Ended 31 December 2021 (Continued)

Plc, having served the maximum tenure of nine years as a Board member in line with our Corporate Governance Policy on maximum tenure, which is aligned to the CMA guidelines on the same; and Dr. Kaushik Manek, retired but remains Director and Chairman of HFC Limited. This was in line with the on-going Board restructure and the Regulatory requirements around minimizing conflicts of interest at the Holding Company level (Holdco) and subsidiary level (OpCo) in order to enhance the oversight role of the Holdco.

Scaling Ambitions

My vision is to build an organization that is responsive to stakeholder sentiments and is results oriented. The Board will provide the requisite oversight and stewardship to deliver on this. We continue to support the management in leveraging the current gains in order to build a formidable brand and scale our growth ambitions to that which will propel the organization into a top tier bank in the medium term. I am very confident that this is achievable if we continue to stay the course on our strategy.

Conclusion

On behalf of the Board of Directors, I would like to express gratitude to all shareholders for your support as we navigate the business back to profitability. Finally, I wish to appreciate my fellow Board members and the management team who have stayed the course despite the headwinds faces by the business. The Board will continue to work with the management to guide the overall strategy of the Group and ensure the transformation of the Group.

Mugenda

Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH
Group Chairperson
Date: 31st March 2022

Taarifa Kutoka kwa Mwenye Kiti kwa Kipindi cha Mwaka Uliomalizika Desemba 31 2021

Kwa Wanahisa wapendwa,

Karibu kwenye Mkutano Mkuu wa 56 wa Mwaka (AGM) wa shirika la HF Group Plc. Huu ni mkutano wangu wa kwanza mkuu, baada ya kujiunga na shirika hili la kifahari tarehe 21 Oktoba 2021. Nilijiunga na Shirika hili wakati wa mpito na ninaporejelea maendeleo yaliyopatikana katika mwaka uliopita, sina shaka kwamba 'jahazi' letu limeshika mwelekeo sahihi. Mwaka uliopita shirika hili lililazimika kufanya mabadiliko yaliyozuliwa na athari za janga la COVID-19, mbali na kutekelezwa kwa azma ya kubuni upya Mkakati wa Mageuzi ya Biashara. Mkakati huu umezaa matunda yaliyotarajiwa na umelitayarisha shirika hili kwa awamu inayofuatia ya safari ya mabadiliko. Sasa tuna biashara ambayo inaafiki kabisa madhumuni yetu.

Shirika hili limepunguza ukubwa wa hasara yake hadi Sh876 milioni kabla ya kuondoa ushuru ikilinganishwa na Sh1.8 bilioni katika mwaka wa 2020. Sasa tuko kwenye mkondo sahihi wa kurejea kwenye faida. Shirika hili pia lilijinufaisha na usimamizi bomba wa kitaalamu wa wakurugenzi na wanachama wa bodi katika kukwamua mikopo isiyolipwa na kwa pamoja kuweza kuirudisha chini mikopo hiyo kwa Sh2.1 bilioni.

Kujitayarisha kwa ukuaji

Mwishoni mwa mwaka wa 2021, Bodi ya Wakurugenzi iliidhinisha kubuniwa kwa mkakati mpya, ambao ni hatua asilia ya kuachana na mkakati wa zamani wa mageuzi ya kibiashara. Mkakati huu unalenga kujenga ufahamu wa soko jipya tunaloelekea ambalo ni utoaji wa huduma kamili za benki, hatua ambayo ni kichocheo muhimu cha mafanikio. Pia unalenga kujenga jina la biashara inayoegemea kwenye utafiti katika kubuni bidhaa na huduma thabiti, ikiwa na uwezo ulioimarishwa, na ubora katika kuwahudumia wateja. Matarajio yetu ni kujenga benki endelevu ambayo inatoa thamani kwa wadau wote.

Jukumu la Bodi hii ni kutoa uangalizi na uongozi kwa kikoa cha wasimamizi na kuhakikisha kuwa biashara hii inadumisha uthabiti katika utekelezaji wa mkakati wetu na kuweka mazingira wezeshi ya kufanikisha ajenda yetu ya mageuzi.

Kufanikisha thamani kwa wenyehisa wetu

Bodi hii imejitolea kutoa uongozi unaohitajika ili kuweka mazingira wezeshi ya kuleta mageuzi ambapo wasimamizi na wafanyikazi wa shirika hili wanaendelea kufanya kazi pamoja ili kubuni fursa za ukuaji na upanuzi wa biashara.

Kwa mantiki hii, kazi ya Bodi hii imebainishwa tayari. Jukumu letu kuu sasa na siku zijazo litakuwa kuzindua nguvu maridhawa za shirika la HF Group, ili kubumburusha ukuaji wa biashara hii na thamani ya pamoja. Shirika hili limewekeza katika baadhi ya vipaji bora zaidi katika sekta hii ili kutoa thamani kupitia utoaji wa bidhaa na huduma faafu, likileta mageuzi kwenye michakato yetu na katika huduma za wateja. Ili kufanikisha hili, tutaendelea kutumia vyema utafiti na ushirikishaji wa wadau ili kuhakikisha kuwa huduma zetu zinaendana na mahitaji ya wateja wetu na mikondo inayobadilikabadilika katika sekta hii.

Wafanyikazi wetu

Wafanyikazi wetu ndio nguzo ya biashara yetu, hivyo basi Bodi hii imejitolea kwa dhati kujenga kikoa cha wafanyikazi waliowezeshwa ambao wanaafiki madhumuni yetu. Katika kipindi hicho, tulizindua safari yetu ya mabadiliko ya kidesturi na kupiga msasa mwongozo wa maadili yetu ili kuendana na matamanio ya biashara hii. Kusudi hapa ni kuwaimarisha wafanyikazi wetu na kuunda kikoa kinachofanya kazi vizuri ili kutimiza malengo yetu ya biashara. Tunaendelea kukumbatia uanuwai na tunaajiri wafanyikazi kwa malengo ya kutoa fursa za kimakusudi kwa jamii zilizotengwa.

Usimamizi wa Shirika

Ninayo furaha kubwa kumkaribisha Dkt Anthony Omerikwa, Bw Charles Kimani Njuguna ambao wamejiunga na Bodi ya Shirika hili kama Wakurugenzi, na Bi Jane Kilonzo ambaye amejiunga na Bodi ya utanzu wa benki ya HFC kama Mkurugenzi Mkuu Huru na Asiyekuwa Mtendaji. Wanachama hawa wapya wa Bodi wana ukwasi wa tajriba na ujuzi wa uongozi katika sekta mbalimbali na wataleta utaalamu wa thamani kwa Shirika hili.

Kwa msingi uo huo, ningependa kumshukuru Dkt Kaushik Manek na Bi Constance Gakonyo, wote wawili wakiwa waliwahi kuwa Wenyekiti wa Bodi ya mpito na walifanya kazi kubwa ya kuongoza shirika nyakati ambazo hazijawahi kushuhudiwa, zilizozuliwa na janga la Covid-19 na kuhakikisha kuwa mpito umefanikishwa bila tatizo.

Taarifa Kutoka kwa Mwenye Kiti kwa Kipindi cha Mwaka Uliomalizika Desemba 31 2021 (Inaendelea)

Kipindi hicho pia kilishuhudia kustaafu kwa wanachama watatu wa Bodi ya Shirika hili: Bi Gladys Karuri alistaafu ili kutoa nafasi ya uwakilishi mpya wa shirika la Britam Holdings Plc kwenye Bodi ya shirika la HF Group; Bw Adan Mohammed alistaafu kama Mkurugenzi wa HFDI Limited, HFC Limited na HF Group Plc, baada ya kuhudumu kwa kipindi rasmi cha miaka tisa kama mwanachama wa Bodi kwa mujibu wa Sera yetu ya Usimamizi wa Shirika kuhusu miaka ya juu zaidi ya kuhudumu, ambayo inaambatana na miongozo ya CMA kuhusu hatamu; na Dkt Kaushik Manek, aliyestaafu lakini bado ni Mkurugenzi na Mwenyekiti wa HFC Limited. Hili liliambatana na uundaji upya wa Bodi unaoendelea na kanuni za Kisheria kuhusu kupunguza migongano ya maslahi katika ngazi ya Kampuni Hodhi yaani Holding Company (Holdco) na ngazi ya kampuni tanzu (OpCo) ili kuimarisha jukumu la uangalizi la Holdco.

Kupanua Matamanio

Maono yangu ni kujenga shirika sikivu kwa maoni ya wadau na kukumbatia mwelekeo wa matokeo bora. Bodi hii itatoa uangalizi na uongozi unaohitajika ili kufanikisha maono haya. Tunaendelea kuunga mkono usimamizi katika kutumia mafanikio ya sasa kujenga sifa thabiti ya shirika hili na kupanua matarajio yetu ya ukuaji hadi kwa yatakayosukuma shirika hili kuwa benki ya daraja ya juu katika kipindi cha wastani. Nina imani kuu kwamba hili linawezekana ikiwa tutaendelea kufuata mkondo wa mkakati wetu.

Hitimisho

Kwa niaba ya Bodi ya Wakurugenzi, ningependa kutoa shukrani zangu za dhati kwa wenyehisa wote kwa msaada na juhudi zao tunapoelekeza biashara kwenye faida. Tamati, ningependa kuwashukuru wanachama wenzangu wa Bodi na kikoa cha wasimamizi ambao wamebaki makinifu licha ya misukosuko ya kibiashara. Bodi hii itaendelea kushirikiana na usimamizi ili kuelekeza utekelezaji wa mkakati wa jumla na kuhakikisha kuna mageuzi katika shirika hili.

Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH
Mwenyekiti

Tarehe: 31 Machi 2022


WHIZZ SCHOOL FEES SOLUTION
School fees sorted!
Pay school fees instantly from your HF Account or Mpesa or get a school fees loan paid instantly to the school.
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Dreams Made Possible
HFCKenya
0709 438 000
SMS line: 21938
customer.service@hfgroup.co.ke
HFC Limited is regulated by the Central Bank of Kenya.

GROUP CHIEF EXECUTIVE OFFICER'S **STATEMENT**

Robert N. Kibaara
Group Chief Executive Officer

Group Chief Executive Officer's Statement For The Year Ended 31 December 2021

Dear Shareholders,

I welcome you to the 56th Annual General Meeting of your company, HF Group Plc. 2021 was an extraordinary year as we continued to adjust to the impact of the global Covid 19 pandemic that resulted in the disruptions to trade and travel. The Group instituted initiatives to navigate the head winds occasioned by this pandemic and safeguard the wellbeing of our employees, customers and all other stakeholders whilst ensuring business continuity. We are proactively supporting our customers to navigate the economic impact of the pandemic on their livelihoods and businesses.

Business Environment

The impact of the Covid 19 pandemic on the global economy is complex. There have been great strides made in managing the health aspects of the pandemic, with breakthrough in the vaccine and initiatives to build herd immunity. The economy rebounded in 2021, as activity in industry and services sectors picked up following the easing of restrictions. As a result of the breakthroughs in the fight against the pandemic, many of the tax and regulatory relief measures that the Government had put in place at the beginning of the crisis were lifted. Although, the whirlwind brought about by the pandemic might have ceased, its disruption on individual livelihoods and businesses has prevailed.

The banking sector accelerated Government lending as risk pricing remained a challenge. However, the situation is likely to shift should the Central Bank of Kenya approve the request by the industry for approval of risk-based pricing. As a Group we continue to re-align our business to rise above the waves of the pandemic, adapt to the emergent macro environment and ensure business continuity. Despite the adverse environment, the Group demonstrated its resilience by cutting back losses YoY by 51%. We enhanced our service and product offering to support the emergent needs of our customers and support their bounce back. Our channels' up time and process turnaround time improved significantly as we committed to improving our customer experience.

Getting ready for take off

The end of the year coincided with the lapse of our 3-year business transformation strategy. The focus of this strategy was to stabilize our business fundamentals in readiness for take-off. Over the three years, we have reaped the benefits of this strategy as we managed to establish the engines of growth for our diversification strategy; restructured the business to make it fit for purpose and shored up our core capital whilst shrinking our loss-making position.

The execution of our strategy called for the separation of our business into the good bank and the bad bank. The good bank comprises of the new full-service bank business capability that includes Personal Banking, SME, Institutional, Treasury and Diaspora Banking. These have been set up as part of our diversification from the real estate sector to complement the mortgage business and build resilience. I am pleased to inform you that as at the end of the year 2021, these businesses were profitable and contributing positively to the Group's financial performance. The bad bank is the property business which due to its cash intensive nature and the macro challenges around the real estate sector has contributed largely to the non-stellar performance of the Group.

During the period, we worked painstakingly to resolve the issues around the bad bank in order to reduce its negative impact on our bottom line. Key to our strategy was the decision to exit from property development. We kicked off the year with aggressive initiatives to accelerate our property sales. As a result, we managed to complete the sale of our largest project, Komarock Heights apartments in Komarock estate and also commenced on its titling process which once completed will catalyse the collection of receivables and closure of the project.

Further, we embarked on the subdivision and sale of Fahari Residences serviced plots in Ruiru, under joint venture.

In addition, we put targeted focus on resolution of our non-performing loans. Based on the initiatives put in place, we managed to bring down our non-performing loan book by Shs 2.1 billion. This reduction unlocked loan provisions, improved our capital ratios and freed cash which we are now deploying to grow the good bank.

We also shored up our capital base with a tier two capital injection of Shs.1Billion from our key shareholder, Britam

Group CEO Statement For The Year Ended 31 December 2021 (Continued)

Holdings Plc and are in the process of closing another transaction that will see an additional capital injection of approximately Shs. 800 million.

Strengthening our Leadership

I am pleased to inform you that Prof. Olive M. Mugenda joined the Group Board as the substantive Group Board Chairperson while Charles Kimani Njuguna and Dr. Anthony Omerikwa joined in as Non – Executive Directors. Prof. Mugenda is an accomplished business leader responsible for the expansion and transformation of Kenyatta University which saw the institution grow in both stature and financial strength. She is also credited with the establishment and operationalization of Kenyatta University Referral Hospital, a 500-bed referral facility. Her wealth of expertise and outstanding transformational leadership track record will be a valuable addition for the Group as she takes on her mandate of overseeing the Group's growth and transformation.

The Board of Directors also appointed Mr. Peter Oduori Mugeni who formerly served as the Credit Director as the new Managing Director for its banking subsidiary HFC. The Board wishes to appreciate Ms. Regina Anyika who was holding the position in an acting capacity and has now resumed her role as the Director Legal and Company Secretary. Peter, a seasoned banker, brings 20 years' experience in leadership, credit risk management and operations having had a stint at HFC as the Credit Director. Peter has a proven track record as an energetic, strategic thinker focused on customer experience and tangible results.

The Group also endeavors to continuously equip the Board of Directors and senior management with relevant training to enhance capacity building. During the year, we partnered with Dorion Associates to train our leaders on Strategy, Financial Reporting and Risk management. Two of our senior Managers also successfully completed a leadership training at Strathmore Business School.

Financial Performance

Despite the challenges of the pandemic which resulted in subdued economic activities and business performance, the initiatives we put in place paid off and we were able to move our performance in the right trajectory to reduce our loss-making position. The performance highlights include the below:

- Group loss before tax of Shs. 876 million against Shs. 1.8 billion during a similar period in 2020 on the back of lower operating expenses.
- Operating expenses reduced by Shs. 0.8 billion from Shs. 4 billion in 2020 to Shs. 3.2 billion in 2021.This is as a result of lower loan loss provisions and prudent cost management.
- Interest expense reduced by Shs. 0.3 billion from Shs. 2.4 billion to Shs. 2.1 billion. This is attributed to the expensive deposits retired during the period as a well as reduction in borrowings.
- Non – performing loans reduced by Shs. 2.1 billion from Shs. 10.8 billion to Shs. 8.7 billion

Building a business that is fit for purpose

Our people are our greatest asset and play a critical role in the achievement of our business strategy. We are investing in our people as we build a high-performance team that delivers value for all stakeholders. Our middle level managers are undertaking the cutting-edge Diamond Leadership programme whose objective is not only personal development but also equipping them with the tools and knowledge needed to lead their teams for maximum productivity. During the period, we launched a culture change journey including new corporate values, aimed at re-aligning employees to our new business model. We have also developed a learning curriculum through which we continue to conduct role-based trainings to ensure that our employees gain deeper knowledge of their roles and align this to our business objectives.

Taking off

At the beginning of this year, the Group embarked on a new strategic cycle for 2022 - 2026 dubbed the Magic 6. The strategy which focuses on a business success and shared value, is consistent to our ambition of building a full-service bank with diversified offering. In addition to repositioning the business we have also set our sights on scaling up the engines of growth, driving efficiency through technology and delivering service excellence with an "all under one roof" proposition. In this strategy, we are repositioning our brand to achieve a complete shift of perception from a single product house to a full-service niche bank offering superior capabilities for the selected segments. We are already running media campaigns to amplify this positioning and will continue to entrench this amongst our stakeholders.

We will also continue to scale up the engines of growth in order to achieve the desired advancement

Group CEO Statement
For The Year Ended 31 December 2021 (Continued)

in Commercial, SME, Institutional, affluent, mass affluent and Diaspora segments to build a less concentrated, stable lower-cost funding base and selectively increase exposure in segments with higher risk-return. As a business, we have embraced efficiency through technology in order to provide capabilities that will enable delivery of the brand promise to the customer cost effectively.

Looking ahead

Given the momentum with which we are moving, we project that by the end of Q1 2022 the Group and all its subsidiaries will have turned around to profitability. We are already out of the woods with the bad bank albeit with a residual fraction which we anticipate to resolve in the medium term. We project that by the end of this year, our Non-Performing Loans will have shrunk by a further Kes 3.8 billion. We intend to exit Clay City Apartments, along Thika Super Highway and Richland Pointe Apartments on Kamiti Road by the end of the year, a move which will unlock cash which we will plough back into the business to power growth. We are also strengthening our partnerships to bolster our full-service bank proposition and have embraced research capabilities that will enable us identify gaps in our delivery so as to develop relevant solutions.

I would like to extend appreciation to the HF Group staff who have demonstrated resilience and worked tirelessly to improve business performance despite the adverse circumstances. I also acknowledge the support of our Board of Directors, who have provided oversight and leadership to me and the management team.

Finally, I would like to thank you, dear shareholders, for the immense faith you have bestowed in your company. I assure you that we are building a business that will unlock value for you and we aim to have a competitive dividend payout in the short term.

Robert N. Kibaara
Group Chief Executive Officer

Date: 31 March 2022

Taarifa Kutoka Kwa Afisa Mkuu Mtendaji kwa Kipindi cha Mwaka uliomalizika Desemba 31 2021

Kwa wanahisa,

Ninawakaribisha nyote kwenye Mkutano Mkuu wa 58 wa Pamoja wa Mwaka wa Kampuni yenu ya HF Group Plc. Hakika, 2021 ulikuwa mwaka wa kipekee kwani tuliendelea kujinasua kutokanana athari za janga la ulimwengu la Covid 19 ambalo lilipelekea kuzuka kwa mabadiliko ya biashara na usafiri. Kundi lilibuni mikakati ya kuendesha mawimbi ya shughuli zake kutokana na janga hili na kulinda maslahi ya wafanyakazi wake , wateja na wadau wengine huku likihakikisha uendelevu wa biashara zake. Kwa makini, tunawasaidia wateja wetu kupambana na athari za janga katika maisha yao na biashara.

Mazingira ya Biashara

Athari za janga la Covid 19 kwa uchumi wa dunia zinaleta changamoto. Kumekuwa na hatua kubwa zilizopigwa kukabiliana na athari za kiafya kutokana na janga huku kukipatikana na chanjo na mikakati ya kuimarisha uwezo wa mwili kustahimili makali yake. Uchumi ulifufuka tena mwaka 2021 huku shughuli kwenye sekta za viwanda na huduma zikiinuka tena baada ya kupunguzwa kwa masharti. Kutokana na ufanisi kwenye vita dhidi ya janga, hatua nyingi za kupunguza ushuru na udhibiti ambazo serikali ilikuwa imechukua mwanzo wa kipindi cha janga ziliondolewa. Ingawa kimbunga kilichosababishwa na jangwa kinaweza kuwa kimepungua, uharibifu wake kwa hali ya kawaida ya maisha na biashara unashuhudiwa.

Sekta ya benki iliongeza ukopeshaji kwa serikali huku hatari ya uwekaji bei ikisalia kuwa changamoto. Hata hivyo, hali hii inatarajiwa kubadilika endapo Benki Kuu ya Kenya itaidhinisha maombi ya sekta kuhusu uwekaji wa bei kulingana na hatari. Kama kundi, tutaendelea kuweka sawa biashara yetu ili kuwa imara kukabiliana na dhoruba za janga, kujizoesha na mazingira ibuka ya chumi ndogo na kuhakikisha uendeleaji wa biashara. Licha ya mazingira magumu , kundi lilidhihirisha uwezo wake kwa kupunguza hasara kwa asilimia 51%.Tuliimarisha huduma na bidhaa zetu ili kusaidia mahitaji ibuka ya wateja wetu kuwawezesha kujinasua tena. Mifumo yetu ya kuinua na mpango wa muda kubadili matokeo uliimarika kwa kiasi kwani tulijitolea kuimarisha matarajio ya wateja.

Kujiandaa kuanza safari

Mwisho wa mwaka uliendа sawia na kumalizika kwa mkakati wetu wa miaka 3 wa kuleta mabadliko. Mtazamo wa mkakati huu ulinuiwa kuzipa nguvu biashara zetu ili kuimarisha misingi na kujiandaa kuendelea na safari. Kwa muda wa miaka 3, tumevuna manufaa ya mkakati huu kwani tuliweza kuzindua nyenzo za ukuaji kwa upanuzi wa mkakati wetu; kubadili upya biashara ili kuzifanya kuwa bora kwa madhumuni lengwa na wakati huo kusaidia mtaji wetu muhimu huku tukipunguza nafasi yetu katika upataji hasara.

Uzinduzi wa mkakati wetu ulihitaji utengaji wa biashara yetu kuwa benki bora dhidi ya benki isiyozalisha faida . Benki bora inahusisha uwezo wa huduma kamili za benki mpya ambazo zinahusisha huduma za benki za kibnafsi, chumi ndogo, taasisi, hazina na huduma za benki kwa wateja katika mataifa ya kigeni. Huduma hizi zimetengwa kama mpango wetu wa upanuzi kutoka sekta ya ujenzi wa nyumba za mitaa ili kusaidia biashara ya utoaji rehani na kuleta ustahimilivu. Nina furaha kuwafahamisha kwamba, kufikia mwisho wa mwaka 2021, biashara hizi zilikuwa na faida na kuchangia vyema kwenye matokeo ya kifedha ya kundi. Benki isiyozalisha faida ni biashara ya raslimali ambayo licha ya hali yake ya mtaji mkubwa na changamoto za chumi ndogo kwenye sekta ya ujenzi wa mitaa imechangia pakubwa kwenye matokeo yasiyoeleweka ya kundi.

Wakati wa kipindi cha mwaka, tulifanya kazi kwa bidii kutatua tatizo lililoko la benki isiyoleta faida ili kupunguza athari kwenye faida. Muhimu kwenye mkakati wetu lilikuwa wazo la kuhama kutoka ustawi wa raslimali. Tulianza mwaka kwa uzinduzi wa mikakati kuhamasisha mauzo ya raslimali. Kutokana na juhudi hizo, tuliweza kufanikiwa kumaliza uuzaji wa mradi wetu mkubwa wa Komarock Heights Apartments ulioko mtaani Komarock na pia kuzindua hatua za utoaji hatimiliki ambao mara utakapokamilika utachochea ukusanyaji wa madeni na kufungwa kwa mradi.

Zaidi ya hayo, tulirejelea upasuaji kwa vipande na uuzaji wa ploti zilizoimarishwa kwa huduma za Fahari Heights eneo la Ruiru chini ya mradi wa umiliki wa pamoja.

Zaidi ya hayo, tunaweka malengo kwa mtazamo wa suluhu la mikopo yetu isiyolipika. Kufungamana na mikakati iliyowekwa, tuliweza kupunguza kiwango cha mikopo isiyolipika hadi Ksh bilioni 2.1. Upungufu huu ulifungua kiwango cha utoaji mikopo, kuimarisha uwiano wa mtaji wetu na kuachilia mtaji ambao tunatumia sasa kuinua ubora wa benki.

Pia, tulisaida kuinua msingi wa mtaji wetu katika mikondo miwili kwa kuingiza Ksh. bilioni 2 kutoka kwa wanahisa wetu maalumu , Britam Holdings Plc na tuko

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kwenye harakati za kutia sahihi mkataba mwingine ambao utashuhudia kuingizwa kwa mtaji wa ziada wa takribani Ksh milioni 800.

Kuimarisha uongozi wetu

Nina furaha kuwafahamisha kwamba, Prof. Olive Mugenda alijiunga na Halmashauri ya Kundi kama Mwenyekiti kwenye halmashauri ya kundi huku Bw. Charles Kimani Njugua na Dkt. Anthony Omerikwa wakijiunga kama Wakurugenzi huru wasio na mamlaka. Prof. Mugenda ni kiongozi mwenye tajriba kubwa ya kibiashara aliyehusika na upanuzi na ubadilishaji wa chuo Kikuu cha Kenyatta uongozi ambao ulishuhudia taasisi hiyo ikiimarika pakubwa na kuimarisha uwezo wa kifedha. Pia, anasifika kwa uanzishaji na utekelezaji kazi wa hospitali ya rufaa ya chuo kikuu cha Kenyatta iliyo na uwezo wa vitanda 500. Ujuzi, tajriba yake na rekodi ya uongozi wake kuleta mabadiliko ni thamani ya ziada kwa kundi huku anapotwaa jukumu lake la kusimamia ukuaji wa kundi na kuleta mabadiliko.

Halmashauri ya wakurugenzi pia ilimteua Bw. Peter Oduori Mugeni ambaye zamani alikuwa akihudumu kama mkurugenzi wa mikopo kuwa Mkurugenzi Msimamizi wa kitengo chake cha benki tanzu za HFC. Halmashauri ingependa kumshukuru Bi. Regina Anyika ambaye alikuwa akishikilia nafasi hii kama kaimu na kwa sasa amerejelea jukumu lake kama Mkurugenzi wa maswala ya kisheria na katibu wa Kampuni. Peter, mwanataaluma wa benki kwa muda mrefu ana tajriba ya miaka 20 katika uongozi , usimamizi wa hatari ya mikopo na utekelezaji kazi na amehudumu katika HFC kama mkurugenzi wa mikopo. Peter, ana rekodi zuri. Ni mwenye nguvu, aliye na maono marefu ya kimkakati kuhusu matamanio ya wateja na matokeo ya kutajika.

Kundi limejitolea daima kuendelea kuipa uwezo halmashauri ya wakurugenzi na wasimamizi wa ngazi ya juu kwa kuwapa mafunzo yanayowafaa kuimarisha uwezo wao. Wakati wa kipindi hiki cha mwaka, tulishirikiana na Dorion Associates kutoa mafunzo kwa viongozi wetu kuhusu mkakati, utoaji ripoti za kifedha na udhibiti wa hatari. Mameneja wetu wawili wa ngazi za juu walipata mafunzo kuhusu usimamizi na kufuzu kikamilifu kutoka chuo cha Strathmore Business School.

Matokeo ya kifedha

Licha ya changamoto kutokana na janga ambalo lilisababisha taharuki katika shughuli za kiuchumi na matokeo ya kibiashara, mikakati tuliyoweka ilizaa matunda na tuliweza kuweka matokeo yetu katika mkondo unaofaa na kupunguza nafasi yetu ya kupata hasara. Vidokezo vya matokeo ni kama vifuatavyo;

- Hasara ya kundi kabla ya ushuru ya Kshs.milioni 876 dhidi ya Kshs.bilioni 1.8 kipindi sawa cha mwaka 2020 kutokana na kupunguzwa kwa gharama za utekelezaji kazi.
- Gharama za utekelezaji zilipungua kwa Kshs.Bilioni 0.8 kutoka Kshs.Bilioni 4 mwaka 2020 hadi Kshs. Bilioni 3.2 mwaka 2021. Hii ilitokana na kupungua kwa hasara ya viwango vya mikopo na usimamizi bora wa gharama.
- Gharaza za riba zilipungua kwa Kshs Bilioni 0.3 kutoka Kshs. Bilioni 2.4 hadi Kshs. Bilioni 2.1. Hii ilitokana na amali ghali zilizoondolewa wakati wa kipindi hiki pamoja na kupunguka kwa ukopaji.
- Mikopo isiyolipika ilipunguka kwa Kshs. Bilioni 2.1 kutoka Kshs. Bilioni 1.8 hadi Kshs. Bilioni 8.7.

Ujenzi wa biashara ambayo inafaa ka malengo yake

Watu wetu ni raslimali kubwa na wanatekeleza wajibu mkubwa kuafikia mkakati wa biashara. Tunawekeza kwa watu wetu huku tunapojenga timu ya kufanikisha matokeo ya hali juu ambayo itazalisha thamani kwa washika dau wetu. Mameneja wetu wa kitengo cha kati wanahudhuria mpango wa mafunzo ya usimamizi wa '' cutting -edge Diamond '' ambao malengo yake si kuimarisha maendeleo ya mtu binafsi tu, bali pia kuwapa uwezo wa zana na elimu inayohitajika kuongoza timu zao na kuleta uzalishaji wa juu. Wakati wa kipindi hiki, tulizindua safari ya kubadilisha hali ya mienendo ikiwemo thamani mpya za kimashirika zinazonuiwa kuwaweka sawa wafanykazi kuhusiana na muundo mpya wa biashara. Pia, tumebuni mtaala wa mafunzo ambao kupitia kwake tunaendelea kutoa mafunzo yanayohusu majukumu na kuhakikisha kwamba wafanyakazi wetu wanapata mafunzo ya kina kuhusu wajibu wao na kuhusisha haya na malengo ya biashara yetu.

Kuanza safari

Wakati wa mwanzo wa mwaka huu, kundi lilianza tena mkondo wa mkakati wa mwaka 2022-2026 ambao unajulikana kama Magic 6. Mkakati huu unaoangazia ufanisi wa biashara na thamani ya pamoja, unaenda sambamba na maono yetu ya kujenga benki inayotoa huduma kamili za aina mbali mbali. Licha ya kuiweka biashara katika hali inayofaa, pia, tumeweka mtazamo

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wetu kupanua nguvu za ukuaji, kufanikisha utekelezaji kwa hali inayofaa kupitia teknolojia na kutoa huduma za hali ya juu chini ya '' kitengo kimoja''. Kupitia mkakati huu, tunaziweka sawa huduma zetu ili kuafikia mabadiliko ya dhana kutoka bidhaa moja ya nyumba hadi benki iliyo na uwezo wa kutoa huduma mbali mbali. Tayari, tunaendesha kampeini kupitia vyombo vya habari ili kutangaza na kujiweka katika hali hii na tutaendelea kusisitiza hili miongoni mwa washika dau wetu.

Pia, tuatendelea kupanua uwezo wetu wa ukuaji ili kuafikia matarajio yetu kibiashara, chumi ndogo, taasisi, ukwasi, umiliki wa mali na kitengo cha wateja wa mataifa ya nje ili kujenga msingi thabiti ulio na ufadhili wa juu na kupanua upeo wa vitengo vilivyo na hatari ya juu kwenye matokeo. Kama biashara, tumezingatia utoaji huduma kwa mfumo unaofaa wa kiteknolojia ili kutoa uwezo ambao utawezesha kutimiza ahadi za bidhaa kwa gharama ya mteja ipasavyo.

Mtazamo wa siku za usoni

Kutokana na kasi tunayoenda sasa , tunabashiri kwamba, ifikiapo mwisho wa kipindi cha miezi minne ya kwanza ya mwaka 2022, kundi na washirika wake tanzu watabadlisha mkondo wa faida. Tayari, tumejinasua kutokana na majeraha ya benki isiyozalisha faida licha ya mambo madogo ambayo tunatarajia kuyatatua kwa muda wa kadri. Tunatazamia kuwa, ifikiapo mwisho wa mwaka huu, mikopo yetu isiyolipika itapungua zaidi kwa Kshs. Bilioni 3.8. Tunanuia kuondoka kwenye miradi ya Clay City Apatments kando mwa barabara kuu ya Thika Superhighway na Richland Pointe Apartments iliyoko ya Kamiti Road Ifikiapo mwisho wa mwaka huu hatua ambayo itatupatia pesa ambazo tutatumia tena kwenye biashara na kuchochea ukuaji. Pia, tunaimarisha ushirikiano wetu kuinua wazo la nafasi ya benki yetu kamili na kuwa na utafiti ambao utatuwezesha kutambua mianya katika utoaji huduma na kupata suluhu linalohitajika.

Ningependa kutoa shukrani kwa wafanyakazi wa HF Group ambao wameonyesha uvumilivu na kufanya kazi bila kuchoka kuimarisha matokeo ya biashara licha ya hali ngumu. Pia, natambua usaidizi kutoka kwa Halmashauri ya wakurugenzi kwa kutoa mwongozo kwangu na timu ya usimamizi.

Mwisho, ningependa kukushukuru wewe mwanahisa mpendwa kwa imani ya dhati ambayo umeonyesha dhidi ya kampuni. Natoa hakikisho kwenu kuwa ,tunastawisha biashara ambayo itazalisha thamani kwako na tunanuia kutoa malipo mazuri ya mgawo wa faida hivi karibuni.

Robert N. Kibaara
Afisa Mkuu mtendaji

Tarehe: 31 Machi 2022

Pictorial of Activities

The Group CEO Robert Kibaara and Trade Finance Senior Relationship Manager, Oscar Muva (Right) demonstrate the Whizz Bid Bonds platform to a customer. The online platform enables customers generate instant unsecured bid bonds of up to Kes. 10M.

Assistant Chief of the Defence Forces Personnel and Logistics (ACDF P&L) and the Chairman of the DESACCO Board, Major General Alphax Kiugu with HFC Retail Director, Patrick Njunge during the launch of the partnership.

Members of staff engaging customers during sales activations.

HFC MD Peter Mugeni (L), Eldoret Branch Manager Oliver Kirior (second right) and Group CEO Robert Kibaara pose with customers when the bank hosted a forum focusing on emerging opportunities in the information age.

HFC Director Retail Banking (L), Patrick Njunge, Executive Director HFDI, Joseph Kamau (R) and Senior Relationship Manager Diaspora Banking, Jennifer Chege (Middle) hosted Kenya USA Diaspora Sacco Chairperson Ralph Kilondu and CEO Evelyn Olunja when they paid a courtesy call.

Pictorial of Activities (Continued)

The Group CEO Robert Kibaara and the Director Legal and Company Secretary Regina Anyika pose with customers during an engagement forum in Meru.

HFC Managing Director Peter Mugeni interacts with a customer during a forum organized by the bank in Mombasa.

A customer gives feedback during a customer engagement forum in Eldoret.

A staff member interacts with real estate agents during a property sales forum.

The Group CEO Robert Kibaara and the Director Legal and Company Secretary Regina Anyika (second right), are joined by HFC mums to launch a new mother's room, in line with the company's Employee Value Proposition to continuously create a conducive work environment that supports the health and well-being of all employees.

Top performing Branch Business Managers got awarded in line with the high performance culture we are building.

Corporate Governance

HF Group Plc is committed to good corporate governance practices to achieve effective and responsible leadership characterised by ethical values of responsibility, accountability, fairness and transparency. The Board and management have ensured compliance with the Central Bank Guidelines on Corporate Governance (CBK/PG/02), Capital Markets Authority Code of Corporate Governance Practices for Issuers of Securities to the public, 2015 and internationally accepted principles and best practices in corporate governance. We consistently review these practices to ensure that the best interests of our stakeholders are always acted upon.

HF Group board approved a corporate governance policy detailing the key corporate governance practices applicable to the group as well as all main subsidiary companies. The policy sets out the Corporate Governance Framework for guidance to the Board and management by defining key responsibilities as well as ethical standards expected of them.

1. The Board of Directors

The board has ultimate accountability and responsibility for the performance and affairs of the group by providing leadership and strategic guidance to sustainably safeguard stakeholders' value. The HF Group Plc board has the following responsibilities:

- Approving the group strategy and continually monitoring management's performance and implementation of the strategy;
- Ensuring that adequate financial and capital resources are in place for the group to meet its strategic objectives;
- Ensuring that the group has appropriate risk management systems and policies to effectively control and report on all key risk areas and key performance indicators of the business.

The board operated under a formal charter that is regularly reviewed a copy of which can be accessed at www.hfgroup.co.ke. The Board has a formal schedule of the meeting in which notices and agenda are circulated to all Directors on a timely basis together with the respective documents for discussion.

Composition of the Board

The Board determines its size and composition, subject to the group's Articles of Association, Board Charter and applicable law. Currently, the Board is composed of the Group Chief Executive Officer and seven non-executive Directors, three of whom are independent including the Chairlady. The Directors have a wide range of skills and experience and each contributes independent judgment and knowledge to the Board's discussions.

On appointment, each Director is provided with a comprehensive and tailored induction process covering the Group's business and operations and provided with information relating to their legal and regulatory obligations.

All Non Executive Directors are required to submit themselves for re-election in accordance with the Company's Articles of Association.

Conflict of Interest

Directors are prohibited from using their positions, or confidential and price-sensitive information, for their own personal or related third-party benefits. Directors are required to disclose to the board of any or potential conflicts of interests that they may have in relation to particular items of business. Registers of individual directors' interests in and outside the company are maintained and updated with details noted by the board on regular basis.

Procedure for Nomination of Directors

The Nomination and Governance committee is responsible for proposing to the Board qualified candidates that meet the criteria to serve as directors and members of board committees. The committee uses a board skill matrix to determine the knowledge, capabilities, expertise and experience required for any vacancy. In case of directors representing a major shareholder, the shareholders nominate individuals to be elected as directors while the board verifies their qualifications.

Corporate Governance (Continued)

The Nomination and Governance committee scrutinises the qualifications of each candidate and proposes the selected candidate for nomination to the board for consideration. Following the board's endorsement of the nominated candidate a letter of no objection is sought from Central Bank of Kenya before proposing nomination by shareholders.

2. Board committees

The HF Group Plc board constituted three committees to assist the board in the discharge of its duties and responsibilities. Each board committee has formal written terms of reference that are reviewed on annual basis. The committees include the Nomination and Governance, Audit & Risk and Strategy.

a) Nomination and Governance Committee

The members of the Nomination and Governance committee are:

- Constance W. Gakonyo, CBS - Chairperson
- Dr. Peter K. Munga, EGH
- Gladys Ogallo
- Robert N. Kibaara - Group Chief Executive Officer

  Majority of the committee members are Non-Executive Directors with the chair being Independent Non Executive Director. The committee operates under board approved Terms of References and meets at least on quarterly basis.

The Committee's responsibilities include:

- Reviewing the structure, size and composition of the Board to ensure the optimum balance of skills, knowledge and experience taking into account the opportunities and challenges which face the Group;
- Identifying and nominating for the approval of the Board a suitable candidate for any Board vacancy which may arise;
- Monitoring the development of succession plans for the Group relating to senior executive management;
- Reviewing the emoluments of both Executive and Non Executive Directors, and Senior Management.

This Committee carries out a peer and self-evaluation of the Board and its committees to assess their contribution and also to ensure that there is the requisite mix of skills and experience available to effectively discharge their duties.

(b) Board Audit & Risk Committee (BARC)

This Committee is under reconstitution. Currently, it comprises two Non Executive Directors and operates under board approved Terms of References.

- Felister W. Kembi - Chairperson
- Dr. Anthony O. Omerikwa, MBS

The Chair of the Committee is an Independent and Non Executive Director, who is also a member of the Institute of Certified Public Accountants of Kenya (ICPSK).

The principal roles of the committee are to:

- Ensure that accounts are prepared in a timely and accurate manner to facilitate prompt publication of annual accounts;
- Review the internal controls, including the scope of the internal audit programme, the internal audit findings and recommend actions to be taken by management.

Corporate Governance (Continued)

2. Board committees (continued)

(b) Board Audit & Risk Committee (BARC) - continued

- To review and assess the integrity of the risk control systems and ensure that the risk policies and strategies are effectively managed.
- Monitor compliance with applicable law, statutory and regulatory requirements.
- Nominate an external auditor for appointment by the shareholders.
- Review of any related party transactions that may arise within the group.
- Monitor the external auditor's independence and objectivity, taking into consideration relevant professional and regulatory requirements.

c) Board Strategy Committee

This committee is composed of five Non-Executive Directors and the Group Chief Executive Officer:

- Dr. Benson I. Wairegi, EBS - Chairperson
- Dr. Peter K. Munga, EGH
- Dr. Kaushik Manek, EBS
- Robert N. Kibaara - Group Chief Executive Officer
- Gladys Ogallo
- Dr. Dorcas Muthoni

The principal roles of the committee are to:

- Oversee the implementation of the Group's strategy;
- Approve and participate in the annual strategy review process;
- Approve all key strategic initiatives including but not limited to; appointment of consultants, capital & revenue expenditure and investments.

3. Attendance of Individual Directors

The following table shows the number of full Board meetings held during the year and the attendance of individual Directors:

HF Group Board meetings						Total Attendance
Date	10/3/21	26/03/21	19/04/21	3/8/21	3/11/21	
Constance W. Gakonyo, CBS	✔	✔	✔	✔	✔	5
Dr. Peter K. Munga, EGH			✔	✔	✔	3
Dr. Benson I. Wairegi, EBS	✔	✔	✔	✔	✔	5
Felister W. Kembi	✔	✔	✔	✔	✔	5
Robert N. Kibaara	✔	✔	✔	✔	✔	5
Dr. Kaushik Manek, EBS*	✔	✔	✔			3
Gladys Karuri*	✔	✔	✔			3
Adan D. Mohamed*	✔	✔	✔			3

* Retired 28th May 2021

Corporate Governance (Continued)

A number of Management committees have been established by the Board to oversee operations in some critical areas. These are Executive committee (EXCO), Asset and Liabilities committee (ALCO), Risk Management committee, Management Lending committee, IT and Change Council and Service Council. The Board appoints other committees as and when necessary.

4. Board Effectiveness Evaluation

To assess the performance of the Board, its committees and individual Directors, the Board conducts a rigorous performance evaluation each year. The process is led by the Chairperson and supported by the Company Secretary.

In March 2022, the Directors completed the annual evaluation that covered a self-evaluation, evaluation of the Chairperson and the overall Board. The conclusion of the evaluation was that the Board operated effectively. The results of the evaluation were submitted to the Central Bank of Kenya.

5. Internal Audit Function

HF Group has designed an internal control system to ensure the integrity and reliability of financial statements and non-financial reporting as well as compliance with laws and internal standards and policies.

The Group has a fully operational internal audit function headed by a qualified senior staff member with functional reporting line to the Group Board Audit & Risk Committee. The function forms the third line of defence within the group enterprise risk management framework. The purpose of the audit function is to provide independent and objective assurance to the board that the governance processes and systems of internal control are adequate and effective. The audit function operates under annual risk based audit plan taking into consideration specific regulatory requirements and approved by the Board Audit Committee.

6. Risk Management

The ultimate responsibility of the Group's risk management rests with the Group Board of Directors. The Board is assisted by the Board Audit & Risk Committee with an independent Risk Management and Compliance function, which reviews the adequacy of the risk management systems and reports independently to the committee.

The Group has instituted an enterprise risk management framework designed to identify, evaluate and manage significant risks associated with the achievement of the group's objectives.

7. Whistle Blowing Policy

HF Group has a whistleblowing policy that has multiple reporting lines including through an independent and credible external party. HF Group staff, customers and general public are encouraged to make reports on unethical and fraudulent behaviours without fear of retaliation from the suspected individuals.

All reported cases are promptly and comprehensively investigated with meritable actions being taken against identified culprits. A summary report is presented to the Board Audit Committee on a quarterly basis.

8. Communication with Shareholders

The Group is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information about its performance; and
- Compliance with regulations and obligations applicable to the Nairobi Securities Exchange and the Capital Markets Authority.

Information is disseminated to the shareholders through an annual report and press notices following the release of quarterly, half yearly and annual results. Press releases on significant developments are also reported.

Corporate Governance (Continued)

9. Directors benefits and loans

All the non-executive Directors have continued to receive Directors' fees. The aggregate amount of Directors' fees is disclosed in Note 36 to the financial statements.

10. Governance Audit

The Board is responsible for putting in place governance structures and systems that support the practice of good governance in the organization. In this regard, HF Group partnered with the firm of Azali CPS LLP to undertake a governance Audit covering Financial Year 2021. The Governance Auditors conducted an audit in accordance with ICS Governance Audit Standards and Guidelines which conform to global Standards. These standards require that the Consultants plan and perform the governance audit to obtain reasonable assurance on the adequacy and effectiveness of the organization's policies, systems, practices and processes. Following the Audit, Azali CPS LLP rendered an opinion reproduced below:-

OPINION

In our opinion, the Board has put in place a satisfactory governance framework in compliance with the legal and regulatory framework, and in this regard, we issue an unqualified opinion. Specific recommendations for improvement have been notified to the Board.

11. Compliance shareholders as at 31 December 2021

	Name of Shareholder	No. of shares held	Percentage shareholding (%)
1.	BRITAM HOLDINGS PLC	74,666,146	19.41
2.	EQUITY NOMINEES LIMITED A/C 00104	48,828,477	12.70
3.	BRITAM LIFE ASSURANCE COMPANY (KENYA) LTD	35,891,083	9.33
4.	BRITAM LIFE ASSURANCE COMPANY (KENYA) LTD	25,597,000	6.66
5.	PERMANENT SECRETARY TREASURY	9,265,135	2.41
6.	STANDARD CHARTERED NOMINEES RESD A/C KE11401	7,569,469	1.97
7.	KERAI, RAMILA HARJI MAVJI & HARJI MAVJI	7,202,000	1.87
8.	MWANGI,PETER KINGORI	6,075,704	1.58
9.	MUSANGI ANDREW MUKITE	6,000,000	1.56
10.	BID MANAGEMENT CONSULTANCY LIMITED	5,298,500	1.38
11.	OTHERS	158,220,654	41.14
	TOTAL	**384,614,168**	**100%**

Corporate Governance (Continued)

12. Distribution of shareholders as at 31 December 2021

Range	No. of Shareholders	No. of shares held	Percentage shareholding (%)
1 - 500	8,095	1,528,591	0.3974
501 - 1,000	4,492	2,998,616	0.7796
1,001 - 5,000	11,424	23,645,729	6.1479
5,001 - 10,000	1,836	12,542,477	3.2611
10,001 - 50,000	1,395	27,235,815	7.0813
50,001 - 100,000	177	12,283,561	3.1937
100,001 - 500,000	112	21,880,600	5.6890
500,001 - 1,000,000	10	7,002,038	1.8205
1,000,001 - 999,999,999,999	30	275,496,741	71.6294
Total	**27,571**	**384,614,168**	**100%**

13. Shareholding by Directors

No	Range	No. of shares held	Percentage shareholding (%)
1.	Robert Ngugi Kibaara	291,500	0.0757
2.	Benson Irungu Wairegi, EBS	78,512	0.0204
3.	Peter Kahara Munga, EGH	0	0.0000
4.	Constance Wangui Gakonyo, CBS	0	0.0000
5.	Felister Wangari Kembi	0	0.0000
6.	Anthony Opare Omerikwa, MBS	0	0.0000
7.	Charles Kimani Njuguna	0	0.0000
8.	Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH	0	0.0000

Sustainability Report

1. Our Sustainability Agenda

Sustainability has become increasingly important to HF Group as we run our day-to-day business activities and navigate through the current macro-economic challenges. We make deliberate efforts to pursue and enact sustainable business practices and are committed to sustainable social and economic development across our business and operations including the achievement of the UN Sustainable Development Goals.

In 2021, our Board of Directors and Senior Management deliberated and approved our strategy to contribute towards the attainment of the Sustainable Development Goals (SDGs) thus cementing our commitment to continue making a net positive impact on society and the environment. We selected five high impact goals as our primary focus namely, **Gender Equality** (goal 5), **Decent Work and Economic Growth** (goal 8), **Sustainable Cities and Communities** (goal 11) and **Life on Land** (goal 15).

We have included the SDG targets into our performance objectives, both at corporate and individual employee level. Each department will now begin to implement projects or fulfill its mandate in line with these targets. Reporting on targets related to the SDGs will now become central to our operations, and we seek to empower all our stakeholders to embrace this. The management team will report to the Board on progress and assume the responsibility of implementing, monitoring, and reporting on sustainability initiatives through seamless integration of the SDGs into the day-to-day operations and functional responsibilities of the business. The Board and management teams are further supported by a team of champions, who assist with the implementation, monitoring, and reporting of SDG-related initiatives in each of the departments.

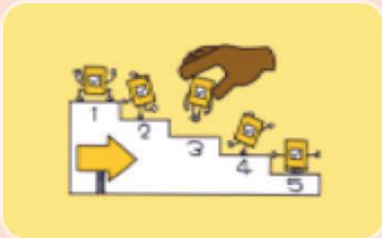
1.1 Material issues during the reporting period

HF Group's material issues are those that matter most to our key stakeholders and impact on our ability to create value in the short, medium and long term. Our material issues are informed by the expectations of our stakeholders, and the economic, social and environmental context in which we operate. While material issues evolve over time, in response to changes in our operating environment and stakeholder expectations, the broad themes tend to be relatively stable.

Sustainability Report (Continued)

1.1.1 How we determine our material issues

We view the materiality determination process as a business tool that facilitates integrated thinking.



Identify
We identified issues based on survey feedback and ongoing engagement with internal and external stakeholders . These were supplemented by internal research & risk assessments.

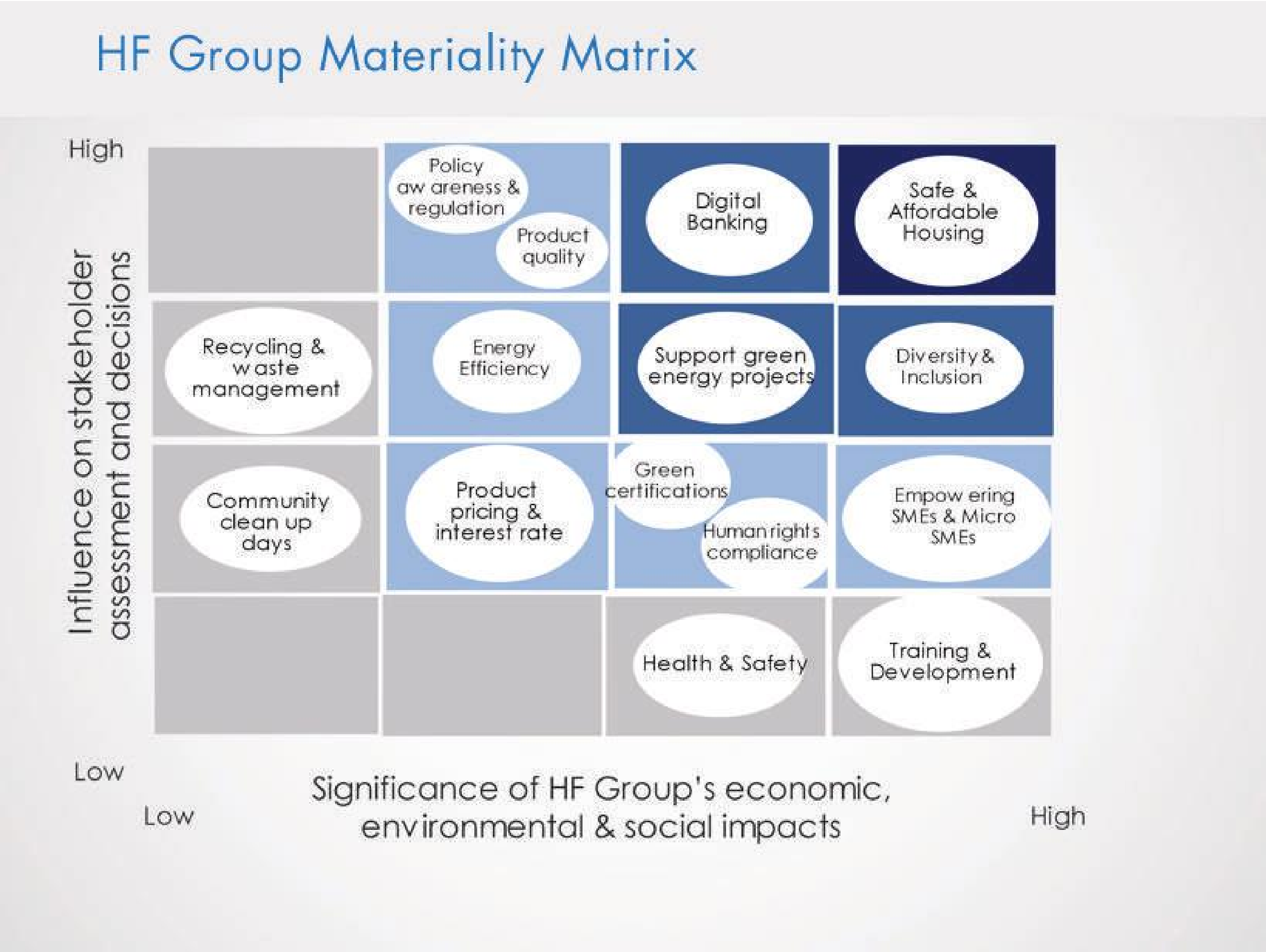
Prioritise
A shortlist of the issues was shared with executives across the group to identify priorities based on their likelihood and potential impact on the company.

Approve
We discussed any refinements and adjustments at the sustainability committee, before being discussed and approved at the group executive committee.

Sustainability Report (Continued)

Last year, we reviewed the group's material issues by considering the relevant targets for our high impact SDGs. These SDG targets will be a measure of our strategic progress which will enable us to focus our efforts on achieving the value we aspire to create for all our stakeholders. Our material issues encompass the risks and opportunities in relation to each of the SDG targets based on how relevant they are to our business.

The material issues were assessed based on the responses received from the SDGs survey weighed against the Group's activities. Based on the materiality assessment, we identified the following key topics:



Highly critical material issues	Critical material issues	Moderate material issues
Safe and affordable housing	Regulation awareness	Training and Development
Digital Banking	Product quality	Health and Safety
Support green energy projects	Energy efficiency	Recycling & waste management
Diversity and inclusion	Pricing & interest rates	
	Green certifications	
	Human rights compliance	
	Empowering SMEs & MSMEs	

Sustainability Report (Continued)

1.2 Stakeholder Engagement

Stakeholder engagement is part of our everyday business. We depend on constructive relationships with our stakeholders to achieve our purpose, understand their expectations, and help us identify the material issues impacting our business. Effective engagement builds trust, strengthens our legitimacy as a socially relevant and responsible corporate citizen and supports our efforts to develop and implement effective solutions to social, economic and environmental challenges.

Our stakeholders are those individuals, groups, and organizations that materially affect or could be materially affected by our business activities, products, services and performance. They provide us with the resources and capital we need to achieve our strategy; influence the environment in which we operate; and give legitimacy on our activities. The issues on which we engage our stakeholders are multiple and diverse. We are committed to respectfully listening to and constructively engaging with all legitimate stakeholders. Proactive engagement provides us with insights that help to inform the definition of our material issues and shape our business strategy and operations while enabling us to manage and respond to stakeholder concerns and minimize reputational risk.

The Group sustainability committee is responsible for reporting on material stakeholder engagements to the executive committee, and for ensuring that material stakeholder concerns and issues are incorporated into the bank's annual assessment of material issues. It also serves as a subject matter expert on developing good stakeholder engagement practices and managing certain stakeholder engagements on behalf of the group. We categorize our stakeholders into two primary groups: those with a direct relationship with the group, and those with an indirect relationship. The following table describes some of the ways we engage with these different groups.

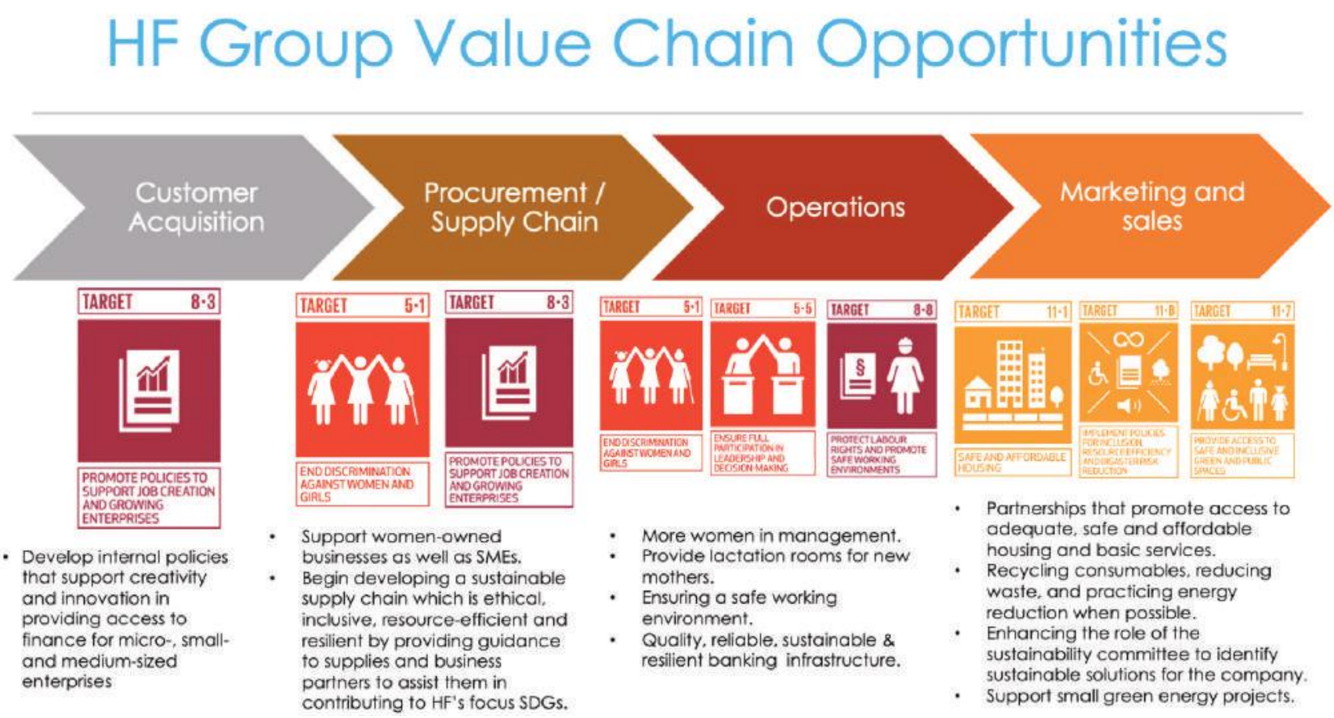
WHY WE ENGAGE	HOW WE ENGAGE
Stakeholders with a direct relationship with the Group	
Our **customers** range from individuals and small businesses to large corporates, state entities and multinationals. They include SME, mortgage, corporate, schemes, personal banking, institutional banking customers	• Direct engagements at branch or increasingly through digital channels • Client satisfaction surveys • Social Media • Feedback from complaint resolution processes • Reports, Webinars and Events
We rely on our **employees** to achieve our purpose. Regular engagement with our staff members is vital in fostering constructive relationships and making HF Group a great place to work. Our employees include permanent, contract, management, unionized and outsourced members of staff	• Employee satisfaction surveys • Online workshops • Focus group discussions • Quarterly town halls • Employee 'Oscar Award' events • Staff retreats • Team-building activities • Human Resources (HR) week • Hosted events
Our **shareholders** provide the financial capital that allows our business to grow. We have a fiduciary duty to manage their investment with care and provide them with a compelling value proposition to retain their confidence and support.	• The AGM • Other investor meetings, calls and conferences • Interim and annual results announcements • Investor issues and concerns are communicated to relevant internal stakeholders, including the board, and inform our planning and reporting
Providers of capital such as financial/capital markets and other funding partners including Investors, lenders, development financing partner and microfinance institutions	• Quarterly reports • Annual reports • Analysts' scores
We engage with our **suppliers** and **business** partners to protect the integrity of our supply chain and ensure we're aligned in terms of expectations and standards.	• We manage our relationships with suppliers through service level agreements and direct engagements

Sustainability Report (Continued)

Stakeholders with an indirect relationship with the Group	
We engage with **regulators** on policy and regulatory matters that impact our operations and operating environment to ensure effective compliance. Our regulators include the Kenya Deposit Insurance Corporation (KDIC), Kenya Revenue Authority (KRA), Central Bank of Kenya (CBK), Capital Market Authority (CMA) and Nairobi Securities Exchange (NSE)	• Regular formal engagements with Central Bank of Kenya and other regulatory bodies on policy, regulatory and operational issues • Seminars with government officials on forthcoming policy changes • Reports, Emails, Circulars
We engage with the **media** to support accurate and well-informed reporting. Our media engagements include mainstream media, bloggers and digital media	• We have a dedicated team at our head office who over-see our engagements with the media
Lobby groups such as Kenya Bankers Association (KBA), Digital Lenders Association (DLA), Kenya National Chamber of Commerce (KNCC)	• Weekly / Monthly Newsletters • Annual customer surveys • Emails

In 2021, we conducted a stakeholder survey, specifically for this report, in order to determine stakeholder expectations. From there we were able to determine the most material SDG targets that reflect the company's significant economic, environmental and social impacts and/or substantively influence the assessments and decisions of our stakeholders.

We have summarised the feedback from this engagement in the following chart:



Sustainability Report (Continued)

2. Performance & Progress

2.1 Economic Performance & Governance

HF Group paid a total of Kes 8.3m corporate tax in 2021. The banking subsidiary HFC which is the main contributor was in a tax loss and hence did not pay any corporate tax.

In 2021, we commenced on a process of inviting strategic investors to acquire a stake in the company as disclosed in the published 2020 Financial Statements. The aim of the proposed transaction is to strengthen the Group's capital in line with its current strategic direction. This process is ongoing and when a transaction materializes, details of that transaction will be announced to shareholders in compliance with the listing rules and Capital Market Authority regulations applicable to it.

During the year, considerations were made on how the Group can refresh its board membership as some members retired and new board members were appointed. HF Group appointed Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH as an Independent Non - Executive Director and Chairperson of the Board on 21st October 2021. Peter Mugeni Oduori was also appointed as the HFC Bank Managing Director on 17th November 2021. Peter is a seasoned banker with over 20 years of experience in Leadership, Credit Risk Management, and Operations as well as leading large teams both regionally and across Africa.

The company continues to focus on generating a level of cash flow that allows us to invest in profitable projects, preserve an attractive shareholder return, and maintain a strong balance sheet.

More financial information is available in the annual report

2.2 Environmental Performance

2.2.1 Energy Efficiency

Our current global challenge is to ensure that global warming does not exceed 2°C by the end of this century. This challenge converges in the fact that the potential of energy efficiency to reduce Green House Gas (GHG) emissions is huge and that efficiency offers the lowest abatement cost in the short term.

Markets are failing to capture the value of energy efficiency, in some cases, such as in the construction sector where technology is available, but finance is still lagging. Energy efficiency is a crucial piece of the puzzle to control climate disruption within the required timeframe. In this, as in other on-going initiatives to mitigate and adapt to climate change, the financial sector can innovate and make a difference.

In 2021, we reduced our expenditure on electricity by 15% per month by installing solar and LED lights in our head office. We are targeting to reduce this by a further Ksh. 1M per month in the coming year. HF Group is also looking to play a more pro-active role by financing solar energy installations at our projects. Already, we have installed thermal solar water heating in Precious Heights and Kahawa Downs Estate as well as solar-powered streetlights in our Clay City apartments.

Renewable energy is projected to be an avenue in addressing energy insecurity since it can play an important role in reducing a country's dependence on imported energy products (like oil and gas). Through reduced emissions of greenhouse gases, renewable energy can also play an important role in helping to address climate change issues. The response to this dual problem will however entail large investments in renewable energy technology, and this requires support from financial institutions.

2.3 Social Performance

2.3.1 Providing Safe and Affordable Housing

Access to adequate, safe, and affordable housing is a core target for SDG 11 Sustainable Cities and Communities. But housing is not just about the physical infrastructure. Having a decent, affordable home has a positive knock-on effect on children's education (SDG 4) and can help people into decent work (SDG 8). The social housing sector can also help reduce energy consumption and tackle climate change (SDG 7 and 13). This approach to analyzing impact is increasingly being used by shareholders and investors. HF Group, as one of the leading property financiers in Kenya, has been shaping the property landscape for over 40 years by partnering with developers both in the public and private sectors, to offer property financing to individuals and companies.

The Kenya Government's Big 4 Agenda defines affordable houses as those that are below Ksh. 4 million. Based on this definition, HF Group has been providing

Sustainability Report (Continued)

affordable houses in partnership with the government's property development agency, the Kenya Mortgage Refinance Company (KMRC). We partnered with KMRC to lend to those who would want to own homes in the lower-income bracket by offering a 9.5% interest rate, against the normal market lending rate of 13%. In 2021, HF Group, through its banking subsidiary, financed the purchase of 2,300 houses across the country.

2.3.2 Diversity and Inclusion

2.3.2.1 Financial Inclusion through Digital Banking

HF Group is focused on creating a space in the SME sector by financing the value chains of the key economic sectors in which the group participates in. In 2021, the bank focused on 4 key sectors i.e. real estate, education, trade and manufacturing and medical sectors.

In 2021, we created a mobile banking platform to enable SMEs participating in government tenders to get real-time unsecured bid bonds of up to Ksh. 10M. The company guarantee SMEs that in the event they win the tender, we will meet the obligations of the contract under the terms at which they had bid. The online based solution dubbed Whizz bid bonds is designed to empower SMEs with 24/7 access and a seamless experience when applying for bid bonds, thereby increasing their chances of winning tenders.

The Whizz bid bonds solution allows customers to self-serve, with an end-to-end digital registration and application, without having to interface with bank employees, as compared to the traditional bid bond issuing process.

Sustainability Report (Continued)

2.3.2.2 Gender Equality and Diversity

The Board and management team firmly believe that diversity and inclusion will strategically enhance the company's human capital and performance for future growth. We recognize the valuable role of diversity to the business growth and leadership. In 2021, we managed to achieve a male to female ratio of 50/50 with our workforce, which is a significant growth of 46% in the number of women employees in the last 3 years. The Group also appointed Prof. Olive M. Mugenda, EBS as its first female, independent Non - Executive Director and Chairperson of the Board on 21st October 2021.

The Group has also made an effort in having gender equality in our supply chain. We now have about 5% of our supplier database comprising of women-owned businesses.

The company also introduced lactation rooms for nursing mothers at the Head Office.

In 2021, the company also made a deliberate effort to recruit differently-abled people and those from minority communities. These now constitute 2% of the employees. We are also working with the Kenya Bankers Association (KBA) to find ways of intentionally providing platforms to support persons living with disability. Some of the initiatives will include wheelchair ramps for our banking facilities, sign language tellers, and mobile banking systems to support customers who are visually impaired. We celebrated Persons with Disabilities (PWDs) day at our branches on 3rd December 2021.

2.3.2.3 Occupational Health and Safety

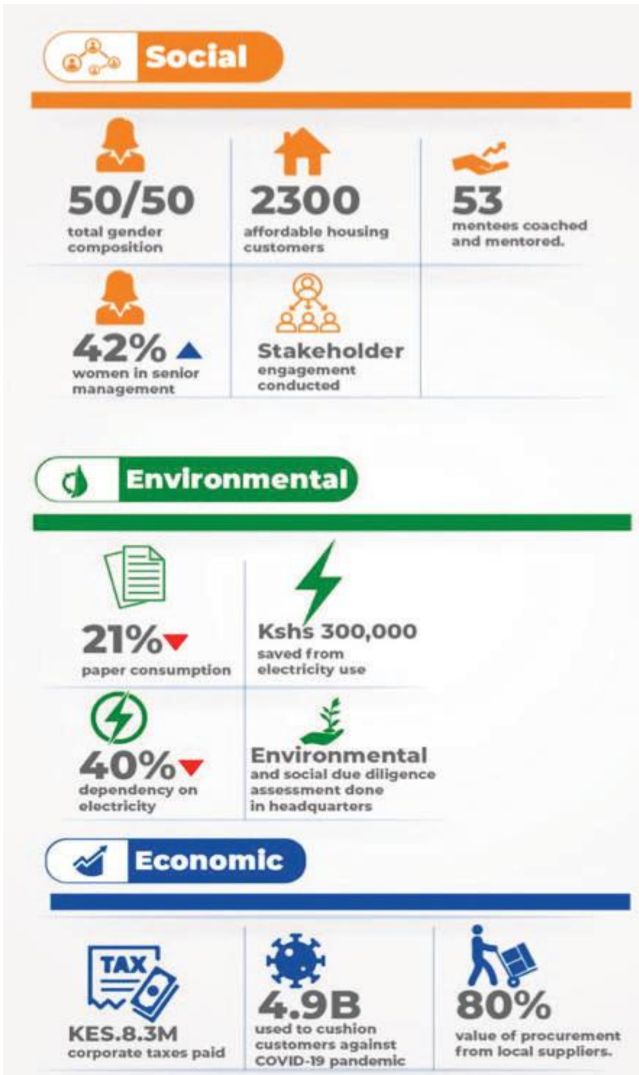
HF Group is highly concerned with the mental health of its employees. In 2021, a team of psychologists was invited to engage staff over a period of one week, on the impact of the Covid 19 pandemic on health and wellness. As a result of this initiative, the management team is in the process of instituting a new medical scheme that captures the concerns raised.

2.3.2.4 Employee Training and Development

In 2021, HF Group conducted training for staff members throughout the year. We undertook a one-year evolution training for leadership and developed a new program called the Diamond Leadership Program (DLP), that trains tier 1 managers to build the capacity of other managers from the HR departments to drive business.

The management is committed to building a high-performance organization anchored on capacity building through coaching and mentorship programs as well as rigorous performance tracking and management. Since 2020, we have initiated a Group – wide coaching and mentoring program whose intention is to nurture high-performing professionals. 53 mentees have undergone a coaching and mentoring process through DLP. A number of technical training sessions were also held during the year.

3.0 Sustainability Performance Summary



TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

HF Group's voluntary adoption of the TCFD recommendations provides climate-related financial information to complement our sustainability reporting. As we continue to assess our sustainability impact through financial lenses, HF Group has also embraced the TCFD framework to better articulate climate-related risks that have a financial impact on our business. This section describes how we intend to manage climate-related risks and opportunities, with reference to the four key pillars recommended by TCFD. References to our Sustainability Report 2021 have been made to provide further details.

HF's Core Element	Recommended Disclosure	HF's Approach	Addressed in Sustainability Report 2021
Governance	Describe the board's oversight of climate-related risks and opportunities.	The Board is committed to strategically integrating sustainability across key aspects of the business and advancing our sustainability efforts. The Board provides guidance to the Sustainability champions through the management team. A Board Sustainability Committee will be set up to provide advisory oversight to The Group's sustainability strategy, initiatives and reporting on our environmental, social and governance (ESG) framework, as well as key ESG targets and performance. The committee will have oversight of climate-related risks, opportunities and initiatives that drive climate mitigation and adaptation strategies. The sustainability champions will update the board committee through the Quarterly Sustainability Report as well as on ESG global and national trends, best practices, any changes in regulations and issues that require the Board Sustainability Committee's advice. The progress against our climate-related goals and targets will be tracked regularly. We will be reporting the performance of the sustainability strategy through our online Quarterly Sustainability Report, in addition to the annual Integrated Sustainability Report. These reports will be sent promptly to the board sustainability committee, the Sustainability champions and all Head of Departments. They will also be publicly available on ours website. The Sustainability champions will report directly to the management team who will report to the Board Sustainability Committee. The sustainability champions will engage all levels of the company's operations and should comprise of management-level staff of all business units. The champions will form sub-committees along The Group's material sustainability issues and will be accountable for sustainability performance through the Group's remuneration and appraisal processes. Each sub-committee will be supported by relevant management and operational staff across all departments and operational units. The primary responsibilities of the Sustainability champions are to execute the climate-related strategies, monitor the performance of their business units in meeting HF's sustainability goals and targets, and track and record their performance. The Sustainability champions are informed of climate-related issues related to the business and our progress against our ESG goals and targets through our online Quarterly Sustainability Reports, in addition to the annual Sustainability Reports.	Our Sustainability Agenda Diversity and Inclu-sion

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES **(Continued)**

Strategy	Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	The Group's sustainability strategy will set long-term climate-related goals and targets towards 2030—a milestone year for the achievement of global goals, including the Sustainable Development Goals (SDGs). Short-term interim targets will be reviewed annually to monitor our progress. We conducted our first climate change scenario analysis study in 2022 where our climate risks, alongside potential financial impacts and opportunities, will be studied. The Group is adopting TCFD's classification of climate-related risks and opportunities, which outlines both transition and physical risks to establish the causal links between changes in climate and weather patterns, related national and global policies and the financial impacts on our business.	Our Sustainability Agenda
	Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	Based on global estimates by the International Energy Agency and UN Environment Programme (UNEP), the building and construction sector accounted for 36% of final energy use and 39% of energy and process-related carbon dioxide emissions in 2018. Out of total emissions, 11% is attributed to manufacturing building materials and products. This underscores The Group's responsibility to mitigate the impact of our business on climate change. We plan to establish ambitious targets to reduce energy intensity across our operations. To meet these targets, Our carbon mitigation strategy will be largely focused on addressing Scope 2 emissions as electricity usage forms the largest source of emissions for our core operations. We will continue to invest in various energy reduction initiatives, including retrofitting our properties to be more energy efficient. In 2021, we have yielded 15% per month of cost-savings across our properties. We will also implement a Sustainable Finance Framework to leverage sustainable financing for funding eligible green and social projects that support our business and sustainability vision. The Group recognises that a business's vulnerability to the impact of climate change extends beyond the physical exposure of its direct operations. Disruptions to our supply chain, customers and markets have material impacts on our value chain and will be considered in the climate change scenario analysis study. Through the monitoring of our material ESG issues, we will continue to identify the impact of climate-related risks and opportunities on our business.	

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (Continued)

Risk Management	Describe the organisation's processes for identifying and assessing climate-related risks.	The Group has been conducting biennial comprehensive materiality assessments since 2018 to identify and prioritise material ESG issues based on our stakeholders' insights. In addition to comprehensive studies, an assessment will be conducted in 2022 to validate the material issues, which will consider voluntary and regulatory requirements—both existing and emerging. In our climate change scenario analysis, climate-related risks will be identified and categorised based on their explicit financial impacts as provided by TCFD. These risks are considered strategic business risks and will be managed under the Group's Risk Management Framework.	Risk Management report in HF's annual report
Metrics and Targets	Disclose the metrics used by the organisation to assess climaterelated risks and opportunities in line with its strategy and risk management process.	Since embarking on our sustainability journey about three years ago, We continue to put in place policies, processes and systems to measure our efforts in environmental protection and conservation. Our sustainability reporting is evolving into a unique hybrid model using Global Reporting Initiative (GRI) Standards, SDG Reporting and now the TCFD framework. Our Integrated Sustainability Report addresses the increasing and more diverse demands for corporate ESG disclosures by investors and stakeholders. Key metrics on carbon emissions, energy and water usage, will be published in our Annual Integrated Sustainability Report. Monitoring and reporting these metrics continues to help us in identifying areas with highest climate-related risks so that we can be more targeted in our efforts.	Our Sustainability Agenda

Report of the Directors

The directors submit their report together with the audited financial statements of HF Group Plc (the Company) and its subsidiaries (together, the Group) for the year ended 31 December 2021.

Incorporation

The Group is domiciled in Kenya where it is incorporated as a private group limited by shares under the Companies Act, 2015. The address of the registered office is set out on page 4.

Directorate

The directors who held office during the year and to date of this report are set out on page 4.

Business review

During the year, the Group reported a loss after tax of Shs 593,291,000 (2020: Loss of Shs 1,706,863,000). Interest income earned during the year was Shs 3,975,185,000 representing a 8% decline from Shs 4,281,711,000 earned in 2020, while the interest expense incurred during the year declined by 13% to Shs 2,095,238,000 from Shs 2,399,249,000 in 2020. The net loan book at the end of year was Shs 34,692,625,000 compared to Shs 36,998,473,000 in 2020. The non-performing loans (NPL) reduced by Shs 2,126,087,000 from Shs 10,798,847,000 in 2020 to Shs 8,672,760,000 in 2021. Deposits reduced by Shs 2,818,088,000 to Shs 38,316,520,000 as at the end of the year.

The business environment was challenging in 2021 mainly due to the negative impact of the Covid-19 pandemic on the economy and business with some sectors harder hit than others. The economics environment improved in 2021 with the rollout of vaccinations and phased removal of government restriction. There still remains significant uncertainty due to the risks associated with emergence of new strains, knock on impact of the pandemic and the Russian /Ukraine conflict such as disruption to supply chains and increases in commodity prices. However, with the continued improvement of the economy, the Group is expected to get on track to achieving its strategic initiatives.

Financial results and recommended dividend

The Group loss for the year of Shs 593,291,000 (2020: Loss of Shs 1,706,863,000). No interim dividend was paid during the year (2020: Nil). The directors do not recommend payment of a final dividend (2020: Nil).

Principal risks and uncertainties

The Group principal risk and uncertainties together with process that are in place to monitor and mitigate those risks where applicable can be found under Note 4 to the financial statements.

Future outlook

The Covid-19 pandemic continues to affect the Group's operations and the way of doing business. In spite of the pandemic's adverse effects, the Group is focusing on ensuring that the business weathers this storm and also supports our stakeholders, particularly the affected customers.

Report of the Directors (Continued)

Statement as to Disclosure to the Group's Auditor

With respect to each director at the time this report was approved:

a) there is, so far as the director is aware, no relevant audit information of which the Group's auditor is unaware; and

b) the director has taken all the steps that the director ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Terms of Appointment of The Auditor

PricewaterhouseCoopers LLP continue in office in accordance with the Company's Articles of Association and Section 721 of the Companies Act, 2015.

The directors monitor the effectiveness, objectivity, and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

Events After the Reporting Year

There have been no events after the reporting date that require adjustment or disclosure to these financial statements.

By order of the Board

SECRETARY 31st March 2022

Directors Remuneration Report

Information Subject to Audit

The directors' remuneration report has been prepared in compliance with the Group's remuneration policy, Capital Markets Authority Code of Corporate Governance Guidelines on Directors' remuneration and the Companies Act, 2015. The remuneration is reviewed regularly to ensure that it is within the existing market rates. This is done to ensure that individual directors are effective and continue to pursue the business strategy. Performance of each director is evaluated annually and communicated appropriately. All directors are expected to observe attendance of the board meetings and make valuable contributions depending on each member's area of speciality. The remuneration is disclosed through the periodic publications made by the Group.

There has been no change to the rate of remuneration for the non-executive directors during the year.

Directors' remuneration paid during the year was as per the table below.

Non - Executive Directors

	Year ended 31 December 2021			Year ended 31 December 2020		
	Fees Shs'000	Sitting allowance Shs'000	Total Shs'000	Fees Shs'000	Sitting allowance Shs'000	Total Shs'000
Dr. Benson I. Wairegi, EBS	488	1,778	2,266	488	1,404	1,892
Dr. Peter K. Munga, EGH	488	1,323	1,811	488	624	1,112
Adan D. Mohamed	266	1,098	1,364	648	1,560	2,208
Constance W. Gakonyo, CBS	488	1,656	2,144	487	900	1,387
Dr. Kaushik Manek, EBS	4875	-	4,875	4,875	208	5,083
Felister W. Kembi	488	1,360	1,848	488	1,196	1,684
Gladys Karuri	200	434	634	488	1,040	1,528
Prof. Olive M. Mugenda, PhD	244	758	1,002	-	-	-
EBS, CBS, MGH	**3,637**	**12,307**	**15,944**	**7,962**	**6,932**	**14,894**

Executive director

	2021 Shs'000	2020 Shs'000
Robert N. Kibaara		
Salary	40,843	39,072
Non-cash benefits	-	3,072
Gratuity	9,450	9,000
Total	**50,293**	**51,144**

Directors Remuneration Report (Continued)

Information not subject to audit

The basic pay and gratuity of the executive director is as per the negotiated employment contract. Other non-cash benefits include club subscription, security and medical cover. Travel and other reasonable expenses (including any associated taxes) incurred in the course of performing HF Group official duties are reimbursed. This is meant to ensure that the package is competitive.

Non-Executive Directors' Remuneration Policy and Framework

Non-Executive directors are engaged on the basis of a letter of appointment. It is the policy of the Board of directors that non-executive directors are paid directors' fees and sitting allowances but are not eligible to participate in any of the Group's bonus, share option or pension schemes.

Details of the policy on fees paid to our non-executive directors are set out in the table below:

Directors fees and sitting allowances	Policy framework
To attract and retain non-executive directors of the highest calibre and having the necessary skills and expertise to exercise independent judgement on issues that promote the Group's objectives.	The director's fees and sitting allowances paid to non-executive directors are determined by the Board of Directors, with recommendations from the Group Nomination and Governance Committee.
	Members of the various committees are also eligible to receive an additional sitting allowance.
	The fees payable are reviewed periodically by the Group Nomination and Governance Committee to ensure that the fees remain competitive and in line with remuneration of other non-executive directors in the industry. Time commitment and responsibility are also taken into account when reviewing fees.
	Travel and expenses for non-executive Directors for Group related assignments are all met by the Group.

Approval of the directors' remuneration report

The directors confirm that this report has been prepared in accordance with the Kenyan Companies Act, 2015, Capital Markets Authority (CMA) Code and listing rules and reflects the disclosure requirements under IFRS.

By order of the Board

SECRETARY

31st March 2022

Statement of Directors Responsibilities

The Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and Company as at the end of the financial year and of their profit or loss for that year. The directors are responsible for ensuring that the Group and Company keep proper accounting records that are sufficient to show and explain the transactions of the Group and Company; disclose with reasonable accuracy at any time the financial position of the Group and Company; and that enables them to prepare financial statements of the Group and Company that comply with prescribed financial reporting standards and the requirements of the Companies Act, 2015. They are also responsible for safeguarding the assets of the Grop and Company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2015. They also accept responsibility for:

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
(ii) selecting suitable accounting policies and applying them consistently; and
(iii) making accounting estimates and judgements that are reasonable in the circumstances.

The directors have disclosed in Note 2(a) of the financial statements matters relating to the use of going concern basis of preparation.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the Board of Directors on 31st March 2022 and signed on its behalf by:

Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH
Chairlady

Robert N. Kibaara
Director

Dr. Benson I. Wairegi , EBS
Director

Regina Anyika
Company Secretary

Independent Auditor's Report to the Shareholders of HF Group PLC

Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of HF Group Plc (the Company) and its subsidiaries (together, the Group) set out on pages 70 to 176, which comprise the consolidated statement of financial position at 31 December 2021 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, together with the Company statement of financial position at 31 December 2021, and the Company statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of HF Group Plc give a true and fair view of the financial position of the Group and the Company at 31 December 2021 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on loans and advances to customers Loans and advances to customers comprise a significant portion of the Group's total assets. The estimation of expected credit losses (ECL) on loans and advances to customers requires management's judgement in the assumptions that are applied in the models used to calculate ECL.	We evaluated the appropriateness of the methodology applied by management in the estimation of expected credit losses for consistency with IFRS 9. We evaluated the appropriateness of segmentation of the loan portfolio. We validated management's basis for staging of loans and advances.

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Partners: E Kerich B Kimacia M Mugasa A Murage F Muriu P Ngahu R Njoroge S O Norbert's B Okundi K Saiti

Key audit matters (continued

Key audit matter	How our audit addressed the key audit matter
The policies for estimating ECL are explained in notes 2 (j) and 4 (a) of the financial statements. The key areas where significant judgement has been exercised and therefore, an increased level of audit focus applied, include: • the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments; • the judgments made to determine the staging of facilities in line with IFRS 9. In particular, the identification of Significant Increase in Credit Risk ("SICR") and Default requires consideration of quantitative and qualitative criteria. This determines whether a 12-month or lifetime PD is used; • the relevance of the forward-looking information assumption used in the models; and • the reasonableness of the timing and amount of the present value of expected future cash flows on loans and advances to customers, which is the key driver for LGD for stage 3 loans. Due to the significant impact of management judgments applied in calculating the ECL, we designated this as a key audit matter in our audit.	We tested, on a sample basis, the accuracy of the computation of PDs, and the completeness and accuracy of the underlying historical data applied in the computation. We reviewed the suitability of forward-looking data used in estimating PDs together with the accuracy of its application in the PD computation process. For forward-looking information, we assessed the appropriateness of the model, including assumptions applied; we corroborated the data using publicly available information; and assessed the reasonableness of the weightings applied to different scenarios to reflect the impact of COVID-19. We tested, on a sample basis the computation of EAD for both on and off-balance sheet items. We tested, on a sample basis, the reasonableness of the present values of expected future cashflows of loans and advances used in the estimation of LGD. We recomputed, on a sample basis, expected credit losses for loans and advances to customers. We assessed whether the disclosures in the financial statements on the key judgements and assumptions were adequate.

Independent Auditor's Report to the Shareholders of HF Group PLC (Continued)

Other information

The other information comprises Group and Company information, Report of Directors, Directors' renumeration report, Statement of directors' responsibilities which we obtained prior to the date of this auditor's report, and the rest of the other information in the Annual Report which are expected to be made available to us after that date but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information we have received prior to the date of this auditor's report we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the rest of the other information in the Annual report and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report to the Shareholders of HF Group PLC (Continued)

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group's financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence.

Independent Auditor's Report to the Shareholders of HF Group PLC (Continued)

Auditor's responsibilities for the audit of the financial statements (continued)

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Group's financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other matters prescribed by the Companies Act, 2015

Report of the directors

In our opinion the information given in the Directors' report on pages 60 to 61 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 62 to 63 has been properly prepared in accordance with the Companies Act, 2015.

CPA Kang'e Saiti, Practicing certificate P/1652
Engagement partner responsible for the audit

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

31st March 2022

Consolidated statement of profit or loss and other comprehensive income

	Note	2021 Shs'000	2020 Shs'000
Interest income	6	3,975,185	4,281,711
Interest expense	6	(2,095,238)	(2,399,249)
Net interest income		**1,879,947**	**1,882,462**
Credit impairment losses	22	(280,645)	(405,069)
Net interest income after credit impairment losses		**1,599,302**	**1,477,393**
Fee and commission income	7	215,935	212,195
Net trading income	8	48,350	85,270
Other income	9	221,748	198,799
Net operating income		**2,085,335**	**1,973,657**
Employee benefits	11	(1,182,536)	(1,227,163)
Depreciation and amortisation	12	(455,968)	(500,392)
Other operating expenses	10	(1,306,844)	(1,925,851)
Share of loss in joint ventures	21	(15,740)	(96,133)
Loss before income tax		**(875,753)**	**(1,775,882)**
Income tax credit	13	282,462	69,019
Loss for the year		**(593,291)**	**(1,706,863)**
Other comprehensive income, net of income tax			
Items that may be reclassified to profit or loss			
Fair value loss on investments in financial instruments measured at fair value through other comprehensive income (FVOCI)	31	(299)	(75,772)
Deferred income tax	31	90	22,732
		(209)	**(53,040)**
Items that will not be reclassified to profit or loss			
Revaluation surplus on property and equipment	31	-	137,076
Deferred income tax	31	-	(6,854)
			130,222
Total comprehensive loss for the year		**(593,500)**	**(1,629,681)**
Annualised basic and diluted earnings per share – Shs	14	**(1.54)**	**(4.44)**

Company statement of profit or loss and other comprehensive income

	Note	2021 Shs'000	2020 Shs'000
Other income	9	131,752	126,183
Employee benefits	11	(56,019)	(56,553)
Depreciation and amortisation	12	(134)	(132)
Other operating expenses	10	(109,669)	(308,833)
Loss before income tax		**(34,070)**	**(239,335)**
Income tax credit	13	12,573	11,097
Loss for the year		**(21,497)**	**(228,238)**
Other comprehensive income		-	-
Total comprehensive loss for the year		**(21,497)**	**(228,238)**

Consolidated statement of financial position

	Note	2021 Shs'000	2020 Shs'000
Assets			
Cash and balances with banks	16	2,708,074	2,284,217
Placements with other banks	17	33,311	202,435
Investment in government securities	18	6,550,168	7,105,617
Loans and advances to banks	22	-	201,509
Loans and advances to customers	22	34,692,625	36,796,964
Investment in joint ventures	21	1,544,339	1,635,079
Other assets	23	1,074,741	983,390
Investment in property fund	24	380,207	324,251
Investment property	29	1,391,875	1,263,268
Inventories	25	462,658	514,422
Property and equipment	19	1,133,965	1,237,680
Right-of-use asset	35	456,489	543,174
Intangible assets	20	519,873	703,254
Current income tax	13	342,746	344,930
Deferred income tax	26	1,612,447	1,305,059
Total Assets		**52,903,518**	**55,445,249**
Liabilities			
Deposits from customers	27	37,714,914	39,944,490
Deposits from banks	27	601,606	1,190,118
Other liabilities	28	1,658,870	1,410,654
Dividends payable	15	246	6,361
Borrowings	30	4,298,349	3,628,227
Government of Kenya income notes	32	52,860	52,860
Derivatives liabilities	37	28,982	-
Lease liabilities	35	579,403	650,751
		44,935,230	**46,883,461**
Shareholders' Equity			
Share capital	31	1,923,071	1,923,071
Share premium	31	4,343,512	4,343,512
Statutory credit risk reserve	31	3,413,517	3,653,888
Revaluation reserves	31	1,012,125	1,012,125
Fair value reserves	31	13,763	13,972
Accumulated losses		(2,737,700)	(2,384,780)
		7,968,288	**8,561,788**
Total Liabilities and Shareholders' Equity		**52,903,518**	**55,445,249**

The financial statements on pages 70 - 176 were approved for issue by the Board of directors on 31st March 2022 and signed on its behalf by:

Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH
Chairlady

Robert N. Kibaara
Director

Dr. Benson I. Wairegi, EBS
Director

Regina Anyika
Company Secretary

Company statement of financial position

	Note	2021 Shs'000	2020 Shs'000
Assets			
Cash and balances with banks	16	2,317	20,196
Investment in subsidiaries	21	9,767,594	9,762,694
Other assets	23	10,355	1,645
Property and equipment	19	402	418
Current income tax	13	46,947	41,682
Deferred income tax	26	49,777	37,204
Total Assets		**9,877,392**	**9,863,839**
Liabilities			
Other liabilities	28	308,928	267,763
Dividends payable	15	246	6,361
		309,174	**274,124**
Shareholders' Equity			
Share capital	31	1,923,071	1,923,071
Share premium	31	4,343,512	4,343,512
Retained earnings		3,301,635	3,323,132
		9,568,218	**9,589,715**
Total Liabilities and Shareholders' Equity		**9,877,392**	**9,863,839**

The financial statements on pages 70 - 176 were approved for issue by the Board of directors on 31st March 2022 and signed on its behalf by:

Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH
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Director

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Director

Regina Anyika
Company Secretary

Consolidated statement of changes in equity

	Share capital	Share premium	Revaluation reserves	Statutory credit risk reserve	Retained earnings	Fair value reserves	Total
	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Year ended 31 December 2020							
At start of year	1,923,071	4,343,512	881,903	2,668,069	307,902	67,012	10,191,469
Loss for the year	-	-	-	-	(1,706,863)	-	(1,706,863)
Other comprehensive income for the year	-	-	130,222	-	-	(53,040)	77,182
Transfer from statutory credit risk reserve	-	-	-	985,819	(985,819)	-	-
At end of year	**1,923,071**	**4,343,512**	**1,012,125**	**3,653,888**	**(2,384,780)**	**13,972**	**8,561,788**
Year ended 31 December 2021							
At start of year	1,923,071	4,343,512	1,012,125	3,653,888	(2,384,780)	13,972	8,561,788
Loss for the year	-	-	-	-	(593,291)	-	(593,291)
Other comprehensive loss for the year	-	-	-	-	-	(209)	(209)
Transfer from statutory credit risk reserve	-	-	-	(240,371)	240,371	-	-
At end of year	**1,923,071**	**4,343,512**	**1,012,125**	**3,413,517**	**(2,737,700)**	**13,763**	**7,968,288**

Company statement of changes in equity

	Share capital Shs' 000	Share premium Shs' 000	Retained earnings Shs' 000	Total Shs' 000
Year ended 31 December 2020				
At start of year	1,923,071	4,343,512	3,551,370	9,817,953
Loss and total comprehensive income for the year			(228,238)	(228,238)
At end of year	**1,923,071**	**4,343,512**	**3,323,132**	**9,589,715**
Year ended 31 December 2021				
At start of year	1,923,071	4,343,512	3,323,132	9,589,715
Loss and total comprehensive income for the year	**-**	**-**	**(21,497)**	**(21,497)**
At end of year	**1,923,071**	**4,343,512**	**3,301,635**	**9,568,218**

Consolidated statement of cash flows

	Note	2021 Shs'000	2020 Shs'000
Net cash flows from operating activities	33	(210,846)	1,156,198
INVESTING ACTIVITIES			
Purchase of property and equipment	19	(9,727)	(32,409)
Purchase of investment property	29	(171,756)	(37,848)
Proceeds from sale of equipment		19,805	58
Purchase of intangible assets	20	(47,758)	(66,680)
Proceeds from sale of disposal of investment property		27,883	-
Net cash flows used in investing activities		**(181,553)**	**(136,879)**
FINANCING ACTIVITIES			
Receipts of borrowed funds	30	1,514,574	-
Principle repayments of borrowings	30	(844,452)	(2,175,496)
Dividend paid	15	(6,115)	(6,662)
Principal lease payments	35	(142,964)	(130,488)
Net cash flows used in financing activities		**521,043**	**(2,312,646)**
Net decrease in cash and cash equivalents	**33**	**128,644**	**(1,293,327)**
Cash and cash equivalents at start of year		1,058,416	**2,337,779**
Effects of exchange rate differences		(1,287)	**13,964**
Cash and cash equivalents at end of year	**33**	**1,185,773**	**1,058,416**

Company statement of cash flows

	Note	2021 Shs'000	2020 Shs'000
Net cash flows (used in) / generated from operating activities	**33**	**(6,746)**	**(4,298)**
INVESTING ACTIVITIES			
Purchase of property and equipment	19	(118)	-
Net cash flows (used in) / generated from investing activities		**(118)**	**(4,298)**
FINANCING ACTIVITIES			
Dividend paid	15	(6,115)	(6,662)
Investments in subsidiaries-HF Bancassurance Intermediary	21	(4,900)	-
Net cash flows used in financing activities		**(11,015)**	**(6,662)**
Net decrease in cash and cash equivalents	**33**	**(17,879)**	**(10,960)**
Cash and cash equivalents at start of year		20,196	31,156
Cash and cash equivalents at end of year	**33**	**2,317**	**20,196**

Notes

1 General information

HF Group Plc is incorporated as a limited company in Kenya under the Kenyan Companies Act, 2015, and is domiciled in Kenya. The address of the Company's registered office is shown on Page 1. The consolidated financial statements comprise of the Company and its subsidiaries (together, the "Group" or "Consolidated" and individually referred to as "Group entities").

The Group is primarily involved in mortgage lending, provision of banking solutions, property development, bancassurance services, and social investment.

2 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Going concern assessment

The economy in 2021 has seen a gradual recovery evidenced by improved business conditions in the Kenyan private sector. The economic environment has improved due to the successful rollout of vaccinations and phased removal of government restrictions. There still remains some uncertainty due to risks associated with emergence of new Covid -19 strains this far and the knock-on impacts of the pandemic and the Russia/Ukraine conflict such as disruption to supply chains around the world and increases in commodity prices.

Within the Group, we have seen an improvement in performance where the loss before income tax position has decreased by Shs 900,129,000 to Shs 875,753,000 (2020: Shs 1,775,882,000). The Bank's capital ratios have also improved. The core capital to total risk weighted assets ratio at 31 December 2021 was 8.25% compared to prior year where the ratio was 7.83% therefore the Bank was able to achieve the minimum ratio of 8.00%, which does not include the 2.5% risk buffer that CBK expects institutions to operate above. The total capital to total risk weighted assets was 12.10% compared to prior year when the ratio was 9.08%. The Bank however still continues to be in breach of the minimum regulatory capital ratios. We have covered within this section how the Group intends to improve the capital ratios. The Bank's liquidity ratio closed at 22.87% as at end of the year 2021 an improvement from last year's position of 20.90%.

The Group's lenders require compliance with regulatory ratios. The Group therefore remains in breach of some of the financial covenants as a result of the regulatory breaches. The covenants breaches have been disclosed under Note 30.

The Group has closed in a negative cashflows from operating activities position of Shs 210,846,000 mainly due to reduction of customer deposits as the Group strives to offload legacy expensive fixed deposits. This has resulted to a reduction in interest expense by 13% to Shs 2,095,238,000 from Shs 2,399,249,000 in 2020.

Notes (Continued)

2 Significant accounting policies (continued)

(a) Basis of preparation(continued)

Going concern (continued)

We have set out below the actions we are taking to address business challenges:

Overall strategy

Towards the end of FY 2021, the Bank and the Group board held a strategy retreat to review the turnaround strategy and the performance year to date. Though there was improvement in the performance, the Board proposed new strategic interventions that will see the Group grow its performance almost triple fold between the period 2022-2026. Some of the proposed interventions include: - Repositioning the HFC Limited as a full-service niche bank offering superior capabilities for the selected segments, scaling up the engines for Growth, solidifying the capital base and investing in growing the businesses through increased investments. With these investments, the financial performance is expected to triple the size of the bank in the next five years. The bank has laid down the foundational background required to achieve this performance.

Non-performing loans (NPLs)

The Group continues to make significant progress in the recovery of non-performing loans and concerted efforts have been put on the NPL recovery efforts. There is a lot of progress in the resolution of matters under litigation, completion of stalled projects, (and aggressive sale of the completed office space/residential property), negotiated settlements, and realisation of collateral either vide private treaty or auction. The target is to resolve the entire legacy non-performing loans (Shs 10 billion) over a 5-year period.

As at 31 December 2021, the Group's gross non-performing loans reduced by Shs 2,126,087,000 from Shs 10,798,847,000 as at 31 December 2020 to Shs 8,672,760,000 as at 31 December 2021. Consequently, the NPL ratio reduced from 26% as at 31 December 2020 to 22% as at 31 December 2021. The above recoveries are projected to result in unwinding of statutory credit risk reserves and as a result this will reduce the statutory credit risk reserve resulting in a transfer to retained earnings and will eventually improve the core tier 1 capital.

Actions to improve tier 2 capital

The Group received tier 2 capital injection from the Group's significant shareholder, of Shs 1 billion on 1 February 2021. The funding has improved the total capital to total risk weighted assets ratio.

The Bank is currently in discussions with one of its lenders to convert part of the borrowing into subordinated debt (Tier II Capital). Only one key condition precedent remains opens as of this the date of this report. This conversion is expected to improve the total capital ratio of the Group.

Liquidity ratio

The Banks liquidity ratio closed at 22.87% as at end of the year 2021 an improvement from last year's position of 20.90%. This trend is expected to continue in 2022 and with reduced debt obligations in 2022, there will be substantial upside on the liquidity position. In addition, the Group is currently holding investments in treasury bills and bonds amounting to Shs 6,550,168,000. These investments are actively traded in the Nairobi Securities Exchange and can be liquidated on short notice to cover for liquidity needs.

Notes (Continued)

2 Significant accounting policies (continued)

(a) Basis of preparation(continued)

Going concern (continued)

Compliance with regulatory capital and other ratios

The Board and management expect the following actions to improve the Group's regulatory compliance position:

- as covered above, the tier 2 capital already received from the Group's significant shareholder and the conversion of a loan balance to tier 2 capital will improve tier 2 and total capital
- also as covered above, NPL recovery will reduce the statutory credit risk reserve resulting in a transfer to retained earnings to improve the core tier 1 and total capital;
- sale of Rehani House building by December 2022 will ensure compliance with investment in buildings to core capital and would also result to a one-off gain; and
- the Group in conjunction with the significant shareholder has appointed a transaction advisor to scout for potential investors to provide both tier 1 and tier 2 capital.

The Group has engaged the regulator (CBK) on the regulatory breaches and the actions management is taking to regularise the position. The Bank has shared a time bound action plan on how and when each breach will be cured. As the Bank continues to achieve progress in resolving non-performing loans (NPLs) and achieving revenue growth, we are confident that the business will turn around.

The Group significant shareholder has confirmed to the Directors that they will continue providing business support to the Group and the Bank for a period of at least 12 months from the date of approval of these financial statements.

Based on the above the directors believe that the going concern assumption is appropriate in the preparation of the financial statements. The Directors expect that the business will continue to generate enough funds internally to finance its operations and any external funding will be invested in further growth of the business.

Changes in Accounting Policy and Disclosures

i) New and amended standards adopted by the Group

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2021:

IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Notes (Continued)

Notes (Continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(i) New and amended standards adopted by the Group (continued)

IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment (continued)

Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.

The relief was originally limited to reduction in lease payments that were due on or before 30 June 2021. However, the IASB subsequently extended this date to 30 June 2022.

If a lessee already applied the original practical expedient, it is required to continue to apply it consistently, to all lease contracts with similar characteristics and in similar circumstances, using the subsequent amendment. If a lessee did not apply the original practical expedient to eligible lease concessions, it is prohibited from applying the expedient in the 2021 amendment. However, if a lessee has not yet established an accounting policy on applying (or not) the practical expedient to eligible lease concessions, it can still decide to do so.

This amendment did not have a material impact on the Group's financial statements

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB made amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark with an alternative one.

The Phase 2 amendments provide the following reliefs:

- When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes, that are necessary as a direct consequence of IBOR reform and which are considered economically equivalent, will not result in an immediate gain or loss in the income statement.

- The hedge accounting reliefs will allow most IAS 39 or IFRS 9 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded.

Effect of Ibor reform on the Group's financial statements

Following the financial crisis, the reform and replacement of benchmark interest rates such as USD LIBOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes. The Group's risk exposure that is directly affected by the interest rate benchmark reform is only in reference to the USD LIBOR.

It is currently expected that SOFR (Secured Overnight Financing Rate) will replace USD LIBOR. There remain key differences between USD LIBOR and SOFR. USD LIBOR is a 'term rate', which means that it is published for a borrowing period (such as three months or six months) and is 'forward looking', because it is published at the beginning of the borrowing period. SOFR is currently a 'backward-looking' rate, based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period.

Furthermore, LIBOR includes a credit spread over the risk-free rate, which SOFR currently does not.

Notes (Continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

i) New and amended standards adopted by the Group (continued)

Effect of Ibor reform on the Group's financial statements (continued)

To transition existing contracts and agreements that reference USD LIBOR to SOFR, adjustments for term differences and credit differences might need to be applied to SOFR, to enable the two benchmark rates to be economically equivalent on transition.

The following table contains details of all of the financial instruments that the Group holds at 31 December 2021 which reference 6 month USD LIBOR and have not yet transitioned to SOFR or an alternative interest rate benchmark as the settings will only be discontinued on 30 June 2023:

Measured at amortised cost amount at 31 December 2021 Shs'000	Carrying value/Nominal	Libor setting
Borrowings		
Shelter Afrique	615,376	6 months USD Libor plus a margin of 6.35%.
Arab Bank for Economic Development in Africa (BADEA)	209,549	6 months USD Libor plus a margin of 5%

Further details on the above borrowings can be found under Note 27

ii) Standards, amendments and interpretations issued but not yet effective

As at 31 December 2021, the following standards and interpretations had been issued but were not mandatory for annual reporting periods ending on 31 December 2021.

Property, Plant and Equipment: Proceeds before intended use –Amendments to IAS 16

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

Notes (Continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

ii) Standards, amendments and interpretations issued but not yet effective (continued)

Annual Improvements to IFRS Standards 2018–2020 (continued)

The following improvements were finalised in May 2020:

IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.

IFRS 16 Leases – amendment to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1

The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments deferred from 1 January 2022 to 1 January 2023 also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments effective 1 January 2023 define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Definition of Accounting Estimates – Amendments to IAS 8

The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors effective 1 January 2023 clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

Notes (Continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

ii) Standards, amendments and interpretations issued but not yet effective (continued)

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:
- right-of-use assets and lease liabilities, and
- decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate.

IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("Functional Currency"). The financial statements are presented in Kenya Shillings in thousands (Shs '000) which is the Group's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions or valuations where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except for differences arising on translation of non-monetary financial assets carried at fair value through other comprehensive income, which are recognised in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit or loss account within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within 'other operating income or expenses'.

Notes (Continued)

(c) Revenue recognition

Net interest income

Interest income and expense are recognised in profit or loss on an accrual basis using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss which are included under trading income and:

- purchased or originated credit impaired (POCI) for which the original credit adjusted effective interest rate is applied to the amortised cost of the financial asset; and
- financial assets that are not POCI that have subsequently become impaired for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of expected credit losses) in subsequent reporting periods.

Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial assets or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability.

Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss, and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

Non – interest revenue

i. Net fee and commission revenue

Fee and commission revenue, including transaction fees, account servicing fees, custodial fees, sales commissions and placement fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Fee and commission expense included in net fee and commission revenue are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is recognised as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue.

ii. Trading revenue

Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, including foreign exchange gains and losses from monetary assets and liabilities.

iii. Other revenue

Other revenue includes rental income, gains and losses from disposal of investment properties and property and equipment and other revenue realised as commissions.

(d) Property and equipment

(i) Recognition and measurement

Items of property and equipment are initially recognised at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost includes any other costs directly attributable to bringing the asset to a working condition for its intended use and the present value of the estimated costs of dismantling and removing the items and restoring the site on which they are located. After initial recognition, property and equipment is measured at cost less accumulated depreciation.

Notes (Continued)

2 Significant accounting policies (continued)

(d) Property and equipment (continued)

(i) Recognition and measurement (continued)

Buildings held at fair value are subsequently shown at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Increases in the carrying amount arising on revaluation are credited to other comprehensive income. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to profit or loss.

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced item is derecognised. The cost of day to day servicing of property and equipment is recognised in profit and loss.

(ii) Depreciation

Freehold land is not depreciated.

Depreciation is calculated on a straight-line basis to allocate the cost or revalued amount to their residual values over their estimated useful lives as follows:

Computers	20%
Motor vehicles	20%
Office equipment, fixtures and fittings	5% - 20%

Buildings on leasehold land are depreciated over the shorter of 50 years and the remaining period of the lease. Buildings on freehold land are depreciated over fifty years. The assets' residual values, useful lives and methods of depreciation are reassessed at each financial year-end and adjusted prospectively, as a change in an estimate, if appropriate.

(iii) Disposal of property and equipment

Gains and losses on disposal of property and equipment are determined by reference to the carrying amount and are recognised in profit or loss in the period in which they arise.

(e) Intangible assets

The Group's intangible assets include the value of computer software. Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- Management intends to complete the software and use or sell it;
- There is an ability to use or sell the software;
- It can be demonstrated how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- The expenditure attributable to the software during its development can be reliably measured.

Notes (Continued)

2 Significant accounting policies (continued)

(e) Intangible assets (continued)

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The intangible assets with finite lives are amortised over the estimated useful life, currently estimated at five (5) to (8) years, on a straight-line basis from the date the software is available for use. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

(f) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease.

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.
Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, the Group has used the CBR rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

Notes (Continued)

2 Significant accounting policies (continued)

(f) Leases (continued)

(i) Group acting as a lessee

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets separately while lease liabilities are presented in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) Group acting as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

(g) Employee benefits

(i) Employee retirement benefits plan

The Group operates a defined contribution scheme based on a percentage of pensionable earnings whose funds are held in a separate trustee administered and guaranteed scheme managed by an approved insurance company. The pension plan is funded by contributions from the employees and the Group. The Group's contributions are charged to profit or loss in the year to which they relate.

Notes (Continued)

2 Significant accounting policies (continued)

(g) Employee benefits (continued)

(i) Employee retirement benefits plan (continued)

The employees and the Group also contribute to the National Social Security Fund. Contributions are determined by the local statute and the Group's contributions are charged to profit or loss in the period to which they relate.

(ii) Accrued leave

Accrual for annual leave is made as employees earn it and reduced when taken.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(h) Income tax

The income tax expense for the period comprises current and deferred income tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Notes (Continued)

2 Significant accounting policies (continued)

(h) Income tax (continued)

(ii) Deferred income tax (continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank deposits held at call, unrestricted balances held with the central bank and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(j) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date which the Group and Company commits to purchase or sell the asset.

At initial recognition, the Group and Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through the profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such fees and commissions. Transaction costs of financial assets and financial liabilities are carried at fair value through profit or loss are expensed in profit or loss. Immediately after the initial recognition, an expected credit loss allowance (ECL) is recognised for the financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
(b) In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

(i) Classification and subsequent measurement

The Group and Company classifies its financial assets in the following measurement categories:
- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)
- Amortised cost

Notes (Continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse. Classification and subsequent measurement of debt instruments depend on:
(i) the Group and Company's business model for managing the asset; and
(ii) the cash flow characteristics of the asset

Based on these factors, the Group and Company classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance. Interest income from financial assets is included in "interest and similar income" using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Net investment income" using the effective interest rate method.

- Fair value through the profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instruments that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented within "Net trading income" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in "Net investment income". Interest income from these financial assets is included in "interest income" using the effective interest rate method

Business model: The business model reflects how the Group and Company manages the assets in order to generate cash flows. That is, whether the Group and Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group and Company in determining the business model for a group of assets include past experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets is held by the Group and Company as part of liquidity management and is generally classified with the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVPL.

Notes (Continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

Debt instruments (continued)

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group and Company assesses whether the financial instruments' cash flows represents solely payments of principal and interest (the "SPPI test"). In making this assessment, the Group and Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group and Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. The changes are expected to be very infrequent and none occurred during the year.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group and Company subsequently measures all equity investments at fair value through profit or loss, except where the entity's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group and Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversals of impairment losses) are not reported separately from other changes in fair values. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group and Company's right to receive payment is established.

Gains and losses on equity investments at FVPL are included in the "Net trading income" line in the statement of profit or loss

(ii) Impairment of financial assets

Expected credit losses (ECL) are recognised on debt financial assets classified as at either amortised cost or fair value through OCI, financial guarantee contracts that are not designated at fair value through profit or loss as well as loan commitments that are neither measured at fair value through profit or loss nor are used to provide a loan at a below market interest rate.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a significant increase in credit risk (SICR) at the reporting date, which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The measurement basis of the ECL is set out below. ECL is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(ii) Impairment of financial assets (continued)

Stages

Stage 1

A 12-month ECL is calculated for financial assets which are neither credit impaired on origination nor for which there has been a SICR.

Stage 2

A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed an SICR since origination and are not considered low credit risk.

Stage 3 (Credit impaired assets)

A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired:

- Default (as defined below)
- Significant financial difficulty of borrower and/or modification
- Probability of bankruptcy or financial reorganisation
- Disappearance of an active market due to financial difficulties

The key components of the impairment methodology are described as follows:

Significant increase in credit risk

At each reporting date, the Group and Company assesses whether the credit risk of its exposures has increased significantly since initial recognition by considering the change in the risk of default occurring over the expected life of the financial asset.

Low credit risk

Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure's ability to fulfil its contractual obligations.

Default

The Group and Company's definition of default has been aligned to its internal credit risk management definitions and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets:

- Significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower)
- A breach of contract, such as default or delinquency in interest and/or principal payments
- Disappearance of active market due to financial difficulties
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation

Notes (Continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(ii) Impairment of financial assets (continued)

Default (continued)

- Where the Group and Company, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Group and Company would not otherwise consider
- Exposures which are overdue for more than 90 days are also considered to be in default

Forward-looking information

Forward-looking information is incorporated into the Group and Company's impairment methodology calculations and in the Group and Company's assessment of SICR. The Group and Company includes all forward-looking information which is reasonable and available without undue cost or effort. The information will typically include expected macroeconomic conditions and factors that are expected to impact portfolios or individual counterparty exposures.

Write-off

Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.

ECLs are recognised within the statement of financial position as follows:

Financial assets measured at amortised cost (including loan commitments)

Recognised as a deduction from the gross carrying amount of the asset (group of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (group of assets), the excess is recognised as a provision within other liabilities.

Off-balance sheet exposures (excluding loan commitments)

Recognised as a provision within other liabilities.

Financial assets measured at fair value through OCI
Recognised in the fair value reserve within equity. The carrying amount of the financial asset is recognised in the statement of financial position at fair value.

(iii) Modification of loans
The Group and Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group and Company assesses whether the new terms are substantially different to the original terms. The Group and Company does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity based return that substantially affects the risk profile of the loan.

Notes (Continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(iii) Modification of loans (continued)

- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change is interest rate
- Change in the currency of the loan
- Insertion of collateral, other security or credit enhancement that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group and Company derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for determining whether a significant increase in credit risk has occurred.

However, the Group and Company also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group and Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate of credit-adjusted effective interest rate for POCI financial assets.

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group and Company transfers substantially all the risks and rewards of ownership, or (ii) the Group and Company neither transfers nor retains substantially all the risks and rewards of ownership and the Group and Company has not retained control.

The Group and Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Bank:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from assets without material delays

Collateral (shares and bonds) furnished by the Group and Company under standard repurchase agreements and securities lending and borrowings transactions are not derecognised because the Group and Company retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group and Company retains a subordinated residual interest.

Notes (Continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial liabilities

(i) Classification and subsequent measurement

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss such as derivatives, financial liabilities held for trading (e.g., short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair values of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability);
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group and Company recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and Company and its original lenders of debt instruments with substantially different terms, as well as substantial modification of the terms of the existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange of modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group and Company (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Notes (Continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial guarantee contracts

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts (that are not designated at fair value through profit
or loss) are subsequently measured at the higher of the:
- ECL calculated for the financial guarantee; or
- unamortised premium.

(k) Impairment of non-financial assets

Non-financial assets are tested annually for impairment and additionally whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Fair value less costs ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (CGUs). Impairment test can also be performed on a single asset when the fair value less costs of development or the value in use can be determined reliably. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(m) Deposits from customers

Deposits from customers are recognised and accounted for on receipt basis as liabilities. Interest expense for interest earning deposits is accrued on the deposits on a daily basis.

(n) Comparatives

Except otherwise required, all amounts are reported or disclosed with comparative information. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

Notes (Continued)

2 Significant accounting policies (continued)

(p) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost comprises expenditure incurred in the normal course of business, including direct material costs, labour and direct overheads wherever appropriate on a weighted average basis, incurred in acquiring inventories or to bring them to the existing location and condition. Net realisable value is the price at which the inventories can be realised in the normal course of business after allowing for the costs of the realisation and, where appropriate, the cost of conversion from its existing state to a realisable condition. Allowance is made for obsolete, slow moving and defective inventories.

(q) Contingent liabilities

Significant litigations and claims against the Group and Company, letters of credit, acceptances, guarantees and performance bonds are accounted for and disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is recognised in profit or loss.

(r) Fiduciary activities

The Group and Company commonly engages in trust or other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising directly thereon are excluded from these annual financial statements as they are not assets of the Group and Company. However, fee income earned and fee expenses incurred by the Group and Company relating to the Group and Company s responsibilities from fiduciary activities are recognised in profit or loss.

(s) Derivative financial assets and liabilities

The Group and Company enters into derivatives (currency forwards and swaps) for trading purposes. At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. The Group and Company may take positions with the expectation of profiting from favourable movement in prices, rates or indices. The Group and Company's exposure under derivative contracts is closely monitored as part of the overall management of its market risk. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in net trading income.

The Group and Company uses the following derivative instruments:

Currency forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over–the–counter market. The Group and Company has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and result in market risk exposure.

Notes (Continued)

2 Significant accounting policies (continued)

(t) Earnings per share

Earnings per share is calculated based on the profit or loss attributable to shareholders divided by the weighted number of ordinary shares. Diluted earnings per share is the same as the basic earnings per share. Diluted earnings per share are computed using the weighted average number of equity shares and dilutive potential ordinary shares outstanding during the period. During the year, there were no outstanding shares with dilutive potential.

(u) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group and Company, is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property.

After initial recognition, investment property is accounted for in accordance with the cost model as set out in IAS 16 Property, Plant and Equipment – cost less accumulated depreciation and less accumulated impairment losses.

(v) Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Group and Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The increase in provision due to passage of time is recognised as an expense.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole.

A provision for restructuring is recognised when the Group and Company has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group and Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group and Company recognises any impairment loss on the assets associated with that contract.

Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the Group and Company, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Group and Company's control.

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit.
Contingent liabilities are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are remote.

Notes (Continued)

2 Significant accounting policies (continued)

(w) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred including acquisition cost, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

In the Company's financial statements, investments in subsidiaries are accounted for at cost less accumulated impairment losses.

(x) Consolidation

i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying amount of the acquirer's previously held equity interest in the acquiree is re-measured at fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Notes (Continued)

2 Significant accounting policies (continued)

(x) Consolidation (continued)

(i) Subsidiaries (continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss and other comprehensive income.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying amount of the acquirer's previously held equity interest in the acquiree is re-measured at fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss and other comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

Notes (Continued)

2 Significant accounting policies (continued)

(x) Consolidation (continued)

(ii) Changes in ownership interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(y) Operating segments

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed and for which discrete financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing the performance of the operating segments has been identified as the Strategy and Investment Committee that makes strategic decisions.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

Operating segments defined at HF Group Plc are organised in four main reporting segments. The segmentation is based on the Group's management and internal reporting structure.

The following summary describes the operations of each of the Group's reportable segment;

- Retail banking: This segment is mainly responsible for sourcing residential mortgages for individual owner occupiers, micro loans, personal loans and it forms the major proportion of the Group's loan book. The segment is also responsible for the sourcing of deposits from retail customers which are then used to finance the Group's loan products.

- Corporate banking: This segment is responsible for sourcing for deposits from corporate organizations. It is also in charge of projects, providing lending to property developers for construction. This includes construction of residential houses for sale, construction of office blocks, schools, hospitals and other related infrastructure.

- Property Development: This function is undertaken by one of the Group's subsidiaries, HF Development and Investment Limited and its core business is the development of housing projects and the sale of houses thereof.

Notes (Continued)

2 Significant accounting policies (continued)

(y) Operating segments (continued)

- Bancassurance: The bancassurance function is based at the HF Insurance Agency Limited and the business is procuring insurance business and earning commissions thereof.

  Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of each.

(z) Joint arrangements

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Joint operations

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. The Group does not have joint operations arrangements.

Joint ventures

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the statement of financial position. The Group's joint venture arrangements have been disclosed under Note 20.

3 Critical accounting estimates and judgements

Use of estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. The directors also need to exercise judgment in applying the Group and Company's accounting policies.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis and are based on experience and other factors, including expectations with regard to future events.

This note provides an overview of the areas that involve a higher degree of judgment or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

Notes (Continued)

3 Critical accounting estimates and judgements (continued)

Use of estimates and judgements (continued)

(a) Measurement of the expected credit loss allowance (continued)

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements.

Impairment is measured for all accounts that are identified as non-performing. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer, realizable value of securities, the Group and Company's position relative to other claimants and the existence of any court injunctions placed by the borrower. Subjective judgments are made in this process of cash flow determination both in value and timing and may vary from one person to another and team to team. Judgments may also change with time as new information becomes available.

The Group and Company reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. In particular, judgment by the directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

Judgements

The following represent critical judgements adopted
- Ascertaining what constitutes significant increase in credit risk
- Segmentation of portfolios;
- Criteria used in determination of which exposures should be individually assessed;
- Definition of default and/or credit impaired;
- Write-off policy;

Estimates

The following approach was adopted to determine estimates
- Selecting and calibrating the PD, LGD and EAD models which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions
- Selecting model inputs including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected losses
- Determining balances to write off

The Group and Company has revised it's estimated expected credit losses, in response to uncertainties, elevated credit risks and weakening global market conditions due to the pandemic. The financial impact of the downturn in the economy on the Group and Company's financial instruments was reassessed with changes made to the Probability of Default (PD) rates and Loss Given Default (LGD). Where applicable, the probability weightings assigned to possible loss scenarios were also revised. In determining what was considered to be appropriate levels for these critical inputs. Some judgement was also applied, based on credit experience with the Group and Company's borrowing clients. Under Note 4 we have set out assumptions used in determining ECL and provides an indication of the sensitivity of the different weightings and changes to PD being applied in different scenarios.

Notes (Continued)

4 Financial risk management

The Group has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risk
- capital management

The directors have overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

(a) Credit risk

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the Group or if an obligor otherwise fails to perform as agreed.

The Group's policy is to pursue timely realisation of the collateral in an orderly manner.

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally, are not updated except when a loan is individually assessed as impaired. Collateral is not held over placements with banks and investment in government securities as these are considered to be low credit risk.

Management of credit risk

The Board of directors has delegated responsibility for the management of credit risk to the Group's management through the Group Chief Executive Officer. Management has delegated this responsibility to head office and branch credit committees. The Group's credit committee, reporting to the Group Chief Executive Officer, is responsible for oversight of the credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to head office and branch credit committees.
- Reviewing and assessing credit risk. The Group Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the branch concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties and industries for loans and advances.
- Reviewing compliance with agreed exposure limits, including those for selected industries and product types. Regular reports are provided to the Group's Credit department on the credit quality of different portfolios and appropriate corrective action is taken.

Regular audits of branches and Group's credit processes are undertaken by internal audit.

Notes (Continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December is their carrying amount as illustrated in the table below:

	Note	2021 Shs'000	2020 Shs'000
Credit exposures			
On – balance sheet items			
Balances and deposits due from financial institutions*	16	2,202,775	1,725,892
Investment securities	18	6,550,168	7,105,617
Loans and advances to customers	22	34,692,625	36,796,964
Loans and advances to banks	22	-	201,509
Other assets**	23	531,039	477,283
		43,976,607	**46,307,265**
Off-balance sheet items			
Guarantees			
Letters of credit, acceptances and other credits		976,588	685,516
		169,046	136,209
		1,145,634	821,725
		45,122,241	**47,128,990**

Management of credit risk (continued)

*Balances and deposits due from financial institutions excludes cash at hand as disclosed under Note 16 as this does not pose a credit risk.

The credit risk on balances and deposits due from financial institutions and investment securities is limited as the counterparties are all recognised financial institutions with good reputation.

**Other assets are made up of settlement and clearing accounts, refundable deposits and other receivable balances. Prepayments and foreclosed assets have been excluded from other assets balances as they do not bear any credit risk. The balances are settled no more than 12 months after the reporting date. All the balances are non-interest bearing and impairment of Shs 33,890,195 (2020: Shs 24,825,000) has been recognised against them at 31 December 2021.

None of the other assets and balances due from related parties are past due or impaired. Management has established a related entity risk management framework including mandatory credit checks with counter parties.

Notes (Continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

Exposure to credit risk (loans and advances)

Amortised cost	Stage 1 12-month ECL Shs' 000	2021 Stage 2 Lifetime ECL Shs' 000	Stage 3 Lifetime ECL Shs' 000	Total Shs' 000
Individually and collectively impaired				
Grade 3: Substandard	-	-	355,981	355,981
Grade 4: Doubtful	-	-	8,316,779	8,316,779
Grade 5: Loss	-	-	-	-
Gross amount	-	-	8,672,760	8,672,760
Provision for impairment losses	-	-	(2,943,618)	(2,943,618)
Carrying amount	-	-	5,729,142	5,729,142
Grade 1: Normal	22,086,457	-	-	22,086,457
Grade 2: Watch	-	7,290,049	-	7,290,049
Gross amount	22,086,457	7,290,049	-	29,376,506
Provision for impairment losses	(13,152)	(399,871)	-	(413,023)
Carrying amount	22,073,305	6,890,178	-	28,963,483
Total Carrying amount	**22,073,305**	**6,890,178**	**5,729,142**	**34,692,625**

Notes (Continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

Exposure to credit risk (loans and advances)

Amortised cost	Stage 1 12-month ECL Shs' 000	2020 Stage 2 Lifetime ECL Shs' 000	Stage 3 Lifetime ECL Shs' 000	Total Shs' 000
Individually and collectively impaired				
Grade 3: Substandard	-	-	326,251	326,251
Grade 4: Doubtful	-	-	10,472,596	10,472,596
Grade 5: Loss	-	-	-	-
Gross amount	-	-	10,798,847	10,798,847
Provision for impairment losses	-	-	(3,203,354)	(3,203,354)
Carrying amount	-	-	7,595,493	7,595,493
Grade 1: Normal	23,272,585	-	-	23,272,585
Grade 2: Watch	-	6,558,292	-	6,558,292
Gross amount	23,272,585	6,558,292	-	29,830,877
Provision for impairment losses	(78,051)	(349,846)	-	(427,897)
Carrying amount	23,194,534	6,208,446	-	29,402,980
Total Carrying amount	**23,194,534**	**6,208,446**	**7,595,493**	**36,998,473**

Doubtful account includes loans and advances whose days past due is over 180 days. Loss account represents those accounts which are considered uncollectible by the Bank.

Notes (Continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

Grade 1 and grade 2 represent loans and advances that are not impaired. Grade 3, grade 4 and grade 5 refer to loans and advances that have been impaired in line with the Group's credit policy and internal model. These represent the loans and advances that the Group cannot collect according to contractual terms of the loan agreements.

Impaired loans

Impaired loans are loans which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Bank.

Allowances for impairment

The loss allowance recognised in the period is impacted by a variety of factors as follows:

- Transfers between Stage 1 and Stage 2 or 3 due to financial instruments experiencing
- significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent "step up" or "step down" between 12-month and lifetime ECL;
- Additional allowance for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

Write-off policy

The Group writes off a loan balance when the credit department determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral have failed to cover the entire facility outstanding. For smaller balance standardised loans, write-off decisions are generally based on a product specific past due default history.

Notes (Continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

Collateral on loans and advances

The Group routinely obtains collateral and security to mitigate credit risk. The Group ensures that any collateral held is sufficiently liquid, legally effective, enforceable and regularly reassessed.

Before attaching value to collateral, the business holding approved collateral must ensure that they are legally perfected devoid of any encumbrances. Security structures and legal covenants are subject to regular review, to ensure that they remain fit for purpose and remain consistent with accepted local market practice. The principal collateral types held by the Group for loans and advances are Mortgages over residential properties and commercial properties.

Valuation of collateral taken is within agreed parameters. The valuation is performed on origination, periodically in line with the Group policy and in the course of enforcement actions. Collateral for impaired loans is reviewed regularly to ensure that it is still enforceable, and that the impairment allowance remains appropriate given the current valuation.

The Group has considered all relevant factors, including local market conditions and practices, before any collateral is realized. The collateral held by the Group against loans and advances is as below;

	Group	
	2021 Shs' 000	2021 Shs' 000
Property	87,077,067	71,985,390
Cash	983,125	30,112
	88,060,192	**72,015,502**

The Group monitors concentration of credit risk by sector. An analysis of concentration of credit risk at the reporting date is shown below:

	Group	
	2021 Shs' 000	2021 Shs' 000
Concentration by segment (Gross)		
Mortgage	24,138,451	26,397,651
Projects	8,955,214	10,780,834
Commercial	3,988,518	2,949,952
Unsecured	936,309	447,981
IPF	30,764	53,290
Micro	10	16
	38,049,266	**40,629,724**

Notes (Continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

Impairment assessment

The Group calculates ECLs either on a collective or an individual basis.

Asset classes where the Group calculates ECL on an individual basis include:

All Stage 3 assets, regardless of the class of financial assets:

- The treasury, trading and interbank relationships (such as due from Banks, cash collateral on securities borrowed and reverse repurchase agreements and debt instruments at amortised cost/FVOCI)
- Exposures that have been classified as POCI when the original loan was derecognised, and a new loan was recognised as a result of a credit driven debt restructuring

Asset classes where the Group calculates ECL on a collective basis include:

- The smaller and more generic balances of the Group's loan portfolio
- Stage 1 and 2 retail mortgages, consumer lending and construction projects
- POCI exposures managed on a collective basis

The Group groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans.

Analysis of inputs to the ECL model under multiple economic scenarios:

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. On the basis of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios.

This process involves developing two additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities, other organisations such as the International Monetary Fund (IMF), World Bank and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro economic variables, credit risk and credit losses.

Notes (Continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Impairment assessment (continued)

The economic scenarios used as at 31 December 2021 included the following ranges of key indicators;

2021 - Significant macroeconomic factors (based on the Bank's segments)

1. Mortgage		Base	Upside	Downside
Macro-economic variable		Weighting		
	Coefficients	66.00%	1.00%	33.00%
Central Bank Rate	0.54142	6.90%	6.90%	6.90%
Housing Price Index	-0.63752	-0.03%	0.50%	-0.56%
Public Debt to GDP	-0.33812	65.00%	66.39%	63.61%

2. Projects		Base	Upside	Downside
Macro-economic variable		Weighting		
	Coefficients	66.00%	1.00%	33.00%
Repo	1.5027	4.80%	4.08%	5.52%
91- Day T-bills	-3.0399	7.34%	7.65%	7.02%
364-Day T-bills	-4.1374	9.13%	9.62%	9%
Central Bank Rate	-9.1649	6.90%	6.90%	7%
Housing Price Index	-2.8164	-0.03%	0.32%	0%
Public Debt to GDP	-0.7828	65.00%	66.39%	64%

3. Commercial		Base	Upside	Downside
Macro-economic variable		Weighting		
	Coefficients	66.00%	1.00%	33.00%
Central Bank Rate	3.1688	6.90%	6.90%	6.90%
Housing Price Index	-2.1427	-0.03%	0.50%	-0.56%
Public Debt to GDP	-1.0824	65.00%	66.39%	63.61%

4. Micro		Weighting		
Macro-economic variable	Coefficients	66.00%	1.00%	33.00%
Central Bank Rate	9.8557	6.90%	6.90%	6.90%
Housing Price Index	-4.1814	-0.03%	0.50%	-0.56%

Notes (Continued)

4 Financial risk management (continued)

Credit risk (continued)

Analysis of inputs to the ECL model under multiple economic scenarios (continued)

5. Unsecured		Base	Upside	Downside
		Weighting		
Macro-economic variable	Coefficients	66.00%	1.00%	33.00%
Saving	14.676	4.84%	4.49%	5.18%
Public Debt to GDP	1.511	65.00%	63.61%	66.39%

6. IPF		Base	Upside	Downside
		Weighting		
Macro-economic variable	Coefficients	66.00%	1.00%	33.00%
Housing Price Index	0.19648	-0.03%	-0.56%	0.50%
Public Debt to GDP	0.15781	65.00%	63.61%	66.39%

2020 - Significant macroeconomic factors (based on the Bank's segments)

Micro		Base	Upside	Downside
		Weighting		
Macro-economic variable	Co-efficient	74.50%	1.00%	24.50%
91 Day T-Bills	-43.0878	6.59%	7.02%	6.16%
364 Day T-Bills	23.6285	8.18%	7.35%	9.02%
Housing Price Index	-5.3858	-0.14%	0.22%	-0.49%
Constant	1.4656	-	-	-

Unsecured		Base	Upside	Downside
		Weighting		
Macro-economic variable	Co-efficient	72.50%	9.58%	17.92%
REPO	-2.16755	5.05%	6.37%	3.74%
Inflation	-4.64038	3.00%	3.73%	2.27%
Saving	4.50855	3.94%	3.66%	4.21%
Constant	0.4592	-	-	-

IPF sector was not correlated with any of the range of macroeconomic factors. This is due to the fact that the sector is made up of short-term loans mostly lasting for a year or less. For this reason, the historical PDs were used.

The correlation of the above factors with the Group's non-performing loans (NPL %) were also used to determine whether these factors should be lagged.

Notes (Continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

The Group's non-performing loans (NPL%) was a reasonable approximation to the Group's default risk. The correlation between the Group's non-performing loans (NPL%) with the above macroeconomic factors was then inferred to the Group's predicated Probabilities of Default.

Further, in determining the economic scenarios to be applied, each of the economic variable was adjusted either upside or downside using the historical standard deviation.

In determining the likelihood of each of the three macroeconomic scenarios, a weighting of 90% (base case), 5% (upside case) and 5% (downside case) was applied. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets were developed based on analysing historical data over the past 3 to 5 years.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PDs are estimates at a certain date, which are calculated based on statistical models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for loans and advances to banks and investment securities.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based mainly on the counterparties' collateral and also on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

For loans portfolios, LGD values are assessed at least every three months by account managers and reviewed and approved by the Group's credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Group segments its retail lending products into portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Notes (Continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

The Group's non-performing loans (NPL%) was a reasonable approximation to the Group's default risk. The correlation between the Group's non-performing loans (NPL%) with the above macroeconomic factors was then inferred to the Group's predicated Probabilities of Default.

Further, in determining the economic scenarios to be applied, each of the economic variable was adjusted either upside or downside using the historical standard deviation.

In determining the likelihood of each of the three macroeconomic scenarios, a weighting of 90% (base case), 5% (upside case) and 5% (downside case) was applied. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets were developed based on analysing historical data over the past 3 to 5 years.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PDs are estimates at a certain date, which are calculated based on statistical models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for loans and advances to banks and investment securities.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based mainly on the counterparties' collateral and also on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

For loans portfolios, LGD values are assessed at least every three months by account managers and reviewed and approved by the Group's credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Group segments its retail lending products into portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Notes (Continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group. The Group estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and purchased or originated credit impaired (POCI) IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the obligor's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12 months ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and purchased or originated credit impaired (POCI) financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's models.

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has doubled since initial recognition.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Group may also consider that some events are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Notes (Continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

Contingent liabilities and commitments

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and, therefore, form part of the overall risk of the Group.

Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

The nominal values of such commitments are listed below: -

	Group	
	2021 Shs' 000	2020 Shs' 000
Undrawn overdrafts	42,562	44,718
Letters of credit	169,046	136,209
Guarantees	976,588	685,516
	1,188,196	**866,443**
Allowance for impairment losses	(19,984)	(7,662)
	1,168,212	**858,781**

The loss allowance on outstanding commitments and financial guarantees is carried in other liabilities and therefore no impact on the carrying amounts.

Impairment losses for loans and advances

The reconciliation from the opening to the closing balance of the loss allowance for loans and advances has been disclosed under Note 21.

An estimate of the fair values of collateral held against loans and advances to customers is shown below:

	Group	
	2021 Shs' 000	2020 Shs' 000
Against impaired accounts	16,973,983	13,406,969
Against accounts not impaired	71,086,209	58,608,533
	88,060,192	**72,015,502**

Notes (Continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Management of liquidity risk

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.
To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk.

This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required. The Group maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow. The Group also has lines of credit that it can access to meet liquidity needs.

In accordance with the Group's policy, the liquidity position is assessed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. Net liquid assets consist of cash, short–term bank deposits and liquid debt securities available for immediate sale, less deposits from banks and borrowings due to mature within the next month.

The Group stresses the importance of current accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of core customer current and savings accounts, together with term funding with a remaining term to maturity in excess of one year.

Treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Board Risk Management Committee.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from financial institutions and commitments maturing within the next 91 days.

Notes (Continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

Details of the reported Group ratio of net liquid assets to customers' deposits at the reporting date and during the reporting period were as follows:

	Group	
	2021	2020
At 31 December	22.87%	20.90%
Average for the year	20.80%	19.03%
Maximum for the year	22.50%	21.98%
Minimum for the year	16.45%	17.50%
Minimum statutory requirement	20.00%	20.00%

4 Financial risk management
(b) Liquidity risk (continued)

Contractual maturity analysis of financial assets and liabilities
The table below analyses the liquidity position of the Group's financial assets and liabilities:

Year ended 31 December 2021	Due on demand Shs' 000	Due within 3 months Shs' 000	Due between 3 and 12 months Shs' 000	Due between 1 and 5 years Shs' 000	Due after 5 years Shs' 000	Total Shs' 000
Financial assets						
Balances and deposits due from financial institutions	2,741,385	-	-	-	-	2,741,385
Loans and advances	5,928,051	515,825	927,838	7,297,534	20,340,071	35,009,319
Investment securities	40,284	11,244	176,244	412,914	5,957,216	6,597,902
Other assets	-	-	1,074,742	-	-	1,074,742
Total financial assets	**8,709,720**	**527,069**	**2,178,824**	**7,710,448**	**26,297,287**	**45,423,347**
Financial liabilities						
Customer deposits	20,727,611	3,791,994	2,231,607	75,162	11,619,087	38,445,461
Bank deposits	601,606	-	-	-	-	601,606
Borrowings	135,767	1,147	618,665	2,351,530	1,271,024	4,378,133
Government income notes *	-	-	-	-	52,860	52,860
Derivatives Liabilities	607	6,269	22,106	-	-	28,982
Lease Liabilities	-	-	102,542	264,473	215,782	582,797
Other Liabilities	1,658,870	-	-	-	-	1,658,870
Total financial liabilities	**23,124,461**	**3,799,410**	**2,974,920**	**2,691,165**	**13,158,753**	**45,748,709**
Net liquidity gap	**(14,414,742)**	**(3,272,341)**	**(796,096)**	**5,019,283**	**13,138,534**	**(325,362)**

Notes (Continued)

4 Financial risk management

(b) Liquidity risk (continued)

Year ended 31 December 2021	Due on demand Shs' 000	Due within 3 months Shs' 000	Due between 3 and 12 months Shs' 000	Due between 1 and 5 years Shs' 000	Due after 5 years Shs' 000	Total Shs' 000
Off balance sheet exposures						
Letters of credit	-	135,780	-	-	-	135,780
Guarantees	-	286,794	35,285	510,947	176,828	1,009,854
Forward derivatives	-	737,350	574,550	1,077,675	-	2,389,575
Unrecognised loan commitments	-	135,780	-	-	-	135,780
Total commitments and guarantees	**-**	**1,295,704**	**609,835**	**1,588,622**	**176,828**	**3,670,989**
Year ended 31 December 2020						
Financial assets						
Balances and deposits due from financial institutions	2,486,652	-	-	-	-	2,486,652
Loans and advances	7,416,318	796,708	616,038	5,685,497	22,483,912	36,998,473
Investment securities	262,286	242,110	453,956	-	6,147,265	7,105,617
Other assets	-	-	-	983,390	-	983,390
Total financial assets	**10,165,256**	**1,038,818**	**1,069,994**	**6,668,887**	**28,631,177**	**47,574,132**

Notes (Continued)

4 Financial risk management

(b) Liquidity risk (continued)

Contractual maturity analysis of financial assets and liabilities (continued)

Year ended 31 December 2020	Due on demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Financial liabilities						
Customer deposits	22,511,906	3,521,734	2,274,012	14,037	11,695,437	40,017,126
Bank deposits	1,190,118	-	-	-	-	1,190,118
Borrowings	-	167,358	654,423	2,412,760	415,336	3,649,875
Government income notes *	-	-	-	-	53,175	53,175
Total financial liabilities	**23,702,024**	**3,689,092**	**2,928,434**	**2,426,797**	**12,163,948**	**44,910,295**
Net liquidity gap	**(13,536,768)**	**(2,650,274)**	**(1,858,440)**	**4,242,090**	**16,467,230**	**2,663,838**
Off balance sheet items						
Letters of credit	-	136,209	-	-	-	136,209
Guarantees	75,919	92,810	476,800	40,047	-	685,576
Unrecognised loan commitments	-	-	1,284,318	-	-	1,284,318
Total commitments and guarantees	**75,919**	**229,019**	**1,761,118**	**40,047**	**-**	**2,106,103**

*Government income notes do not carry a maturity date hence interest has been calculated up to 5years.

Notes (Continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

Liquidity reserves

The following table sets out the components of the Group's liquidity reserves

Liquidity reserves	2021 Shs' 000	2020 Shs' 000
Cash at hand	538,629	761,310
Balances with commercial banks	345,779	777,515
Balances with Central Bank of Kenya:	1,823,685	745,680
Placements with other banks	33,311	202,697
Government securities	6,550,168	7,105,617
Total liquidity reserves	**9,291,572**	**9,592,819**

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Management of market risks

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The Group's Treasury is responsible for the development of detailed market risk management policies and for day-to-day implementation of those policies.

Furthermore, it includes the protection and enhancement of the statement of financial position and statement of profit or loss and other comprehensive income and facilitating business growth within a controlled and transparent risk management framework.

All foreign exchange risk within the Group is managed by the Treasury department. Accordingly, the foreign exchange position is treated as part of the Group's trading portfolios for risk management purposes.

Overall authority for market risk management is vested in the Board Risk Management Committee. The Finance and Treasury departments in collaboration with the Risk Management department are responsible for the development of detailed market risk management policies (subject to review and approval by Board Risk Management Committee) and for the day-to-day review of their implementation.

Market risk measurement techniques

Value at risk

The Bank applies a 'value at risk' (VAR) methodology to its FX trading to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted for the Bank, which are monitored on a daily basis by Bank's treasury department. VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (95%). There is therefore a specified statistical probability (5%) that actual loss could be greater than the VAR estimate. The VAR model assumes a certain 'holding period' until positions can be closed (1 day). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 1-day periods in the past. The Bank's assessment of past movements is

Notes (Continued)

based on data for the past five years. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements. VAR constitutes an integral part of the Bank's market risk control regime. VAR limits are established by the Board annually for all trading portfolio operations and allocated to business units. Actual exposure against limits is reviewed daily by Bank's treasury department. The result of the VAR testing in the year were within the acceptable thresholds. The Bank continues to monitor the impact of COVID-19 on VAR.

Stress tests

The Bank applies a 'stress test' methodology to its non-trading book. Interest rate risk in the non-trading book is measured through the use of interest rate repricing gap analysis. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The results of the stress tests are reviewed by heads of business unit and by the Board. The stress testing is tailored to the business and typically uses scenario analysis.

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Board Risk Management Committee is the monitoring body for compliance with these limits and is assisted by treasury back office and finance department in the day-to-day monitoring activities, while Risk Management Department carries out regular reviews

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4 Financial risk management (continued)

(c) Market risk (continued)

A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

(i) Interest rate risk table

31 December 2021	Carrying amount Shs'000	Non-interest bearing Shs'000	Less than 3 months Shs'000	3-6 months Shs'000	6-12 months Shs'000	1-5 years Shs'000	More than 5 years Shs'000
Assets							
Cash balances and deposits in financial institutions	2,741,385	2,708,074	33,311	-	-	-	-
Loans and advances	34,692,625	6,764,195	-	27,928,430	-	-	-
Investment in government securities	6,550,168	-	40,000	10,000	175,000	410,000	5,915,168
Total financial assets	**43,984,177**	**9,472,269**	**73,311**	**27,938,430**	**175,000**	**410,000**	**5,915,168**
Liabilities							
Deposits from customers	37,714,914	7,497,813	12,655,030	3,740,081	2,165,330	136,998	11,519,662
Deposits from banks	601,606	-	601,606	-	-	-	-
Borrowings	4,351,209	-	134,809	186,171	429,847	2,337,137	1,263,245
Lease liabilities	579,403	579,403	-	-	-	-	-
Total financial liabilities	**43,247,132**	**8,077,216**	**13,391,445**	**3,926,252**	**2,595,177**	**2,474,135**	**12,782,907**
Interest rate sensitivity gap	**737,045**	**1,395,053**	**(13,318,134)**	**24,012,178**	**(2,420,177)**	**(2,064,135)**	**(6,867,739)**

4 Financial risk management (continued)

(c) Market risk (continued)

A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

(i) Interest rate risk table (Continued)

31 December 2020	Carrying amount Shs'000	Non-interest bearing Shs'000	Less than 3 months Shs'000	3-6 months Shs'000	6-12 months Shs'000	1-5 years Shs'000	More than 5 years Shs'000
Assets							
Cash balances and deposits in financial institutions	2,486,652	2,284,217	202,435	-	-	-	-
Loans and advances to customers	36,998,473	6,283,019	-	30,715,454	-	-	-
Investment in government securities	7,105,617	-	26,000	240,000	450,000	-	6,389,617
Total financial assets	**46,590,742**	**8,567,236**	**228,435**	**30,955,454**	**450,000**	**-**	**6,389,617**
Liabilities							
Deposits from customers	39,944,490	8,098,450	15,637,045	3,643,845	2,156,790	13,314	10,395,046
Deposits from banks	1,190,118	-	1,190,118	-	-	-	-
Borrowings	3,681,087	-	118,835	381,443	413,797	2,310,659	456,353
Lease liabilities	650,751	650,751	-	-	-	-	-
Total financial liabilities	**45,466,446**	**8,749,201**	**16,945,998**	**4,025,288**	**2,570,587**	**2,323,973**	**10,851,399**
Interest rate sensitivity gap	**1,124,296**	**(181,965)**	**(16,717,563)**	**26,930,166**	**(2,120,587)**	**(2,323,973)**	**(4,461,782)**

Notes (Continued)

4 Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign exchange risk

Foreign exchange risk arises from recognised assets and liabilities. The Group's exposure to foreign currency risk arose from assets denominated in US Dollars, EUR and GBP was as follows:

31 December 2021	USD Shs' 000	GBP Shs' 000	Euro Shs' 000	Total Shs' 000
Assets				
Cash and cash equivalents	370,174	(7,171)	52,510	415,513
Loans and advances to customers	3,391,035	39,598	99	3,430,732
Other assets	43,744	749	414	44,907
Total assets	**3,804,953**	**33,176**	**53,023**	**3,891,152**
Liabilities				
Customer deposits	1,132,793	10,233	27,968	1,170,994
Borrowed funds	2,800,749	-	-	2,800,749
Other liabilities	(192,278)	2,031	2,545	(187,702)
Total liabilities	**3,741,264**	**12,264**	**30,513**	**3,784,041**
Net financial position	**63,689**	**20,912**	**22,510**	**107,111**
31 December 2020				
Assets				
Cash and cash equivalents	1,804,078	-	-	1,804,078
Loans and advances to customers	3,313,402	41,091	49	3,354,542
Other assets	281,040	571	433	282,044
Total assets	**5,398,520**	**41,662**	**482**	**5,440,664**
Liabilities				
Customer deposits	1,470,702	5,753	14,151	1,490,607
Borrowed funds	3,628,227	-	-	3,628,227
Other liabilities	-	91,313	92,589	183,902
Total liabilities	**5,098,929**	**97,066**	**106,740**	**5,302,736**
Net financial position	**299,591**	**(55,404)**	**(106,259)**	**137,928**

Notes (Continued)

4 Financial risk management (continued)

(c) Market risk (continued)

The following significant exchange rates applied during the period:

	Average rates 2021	Closing rates 2021	Average rates 2020	Closing rates 2020
US Dollar	109.65	113.15	106.54	109.20
EUR	129.68	128.19	121.71	134.28
GBP	150.68	152.86	136.79	149.24

Sensitivity analysis on exchange rates

The analysis below shows the effect of a reasonably possible movement of the foreign currency rates against the Kenya Shilling (all other variables being constant).

	2021			2020		
	Change in currency	Effect on profit before income tax Shs' 000	Effect on equity Shs' 000	Change in currency	Effect on profit before income tax Shs' 000	Effect on equity Shs' 000
US$	10%	6,369	4,458	10%	29,959	22,469
GBP	10%	2,251	1,576	10%	(5,540)	(4,155)
EURO	10%	2,091	1,464	10%	(10,626)	(7,969)

(ii) Sensitivity analysis to interest rate risk

The following table sets out the components of the Group's financial instruments subject to interest rate risk:

Assets	Interest rate	2021 Shs'000	2020 Shs'000
Loans and advances	8.53%	34,692,625	36,998,473
Government securities	11.70%	6,550,168	7,105,617
Placements with banks	3.53%	33,311	202,435
Total liquidity reserves		41,276,104	44,306,525
Liabilities			
Deposits	4.03%	38,316,520	41,134,608
Borrowings	7.39%	4,298,349	3,628,227
Total liquidity reserves		42,614,869	44,762,835
Interest rate sensitivity gap		(1,338,765)	(456,310)

At 31 December 2021, if interest rates at that date had been 100 basis points lower with all other variables held constant, pre-tax loss for the year would have been Shs 2,309,510 (2020: Shs 18,627,103) lower arising mainly as a result of lower interest income and other components of equity would have been Shs 2,309,510 (2020: Shs 18,627,103) lower arising mainly as a result of lower interest income loans and advances.

Notes (Continued)

4 Financial risk management (continued)

(c) Market risk (continued)

(iii) Other price risk

The Group does not hold any financial instruments subject to price risk.

(d) Operational risk

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. The responsibility is supported by the development of overall Group standards for the management of operational risks. Compliance with Group standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board Audit committee and senior management of the Group.

Risk measurement and control

Interest rate, credit, liquidity, operational risk and other risks are actively managed by the Group's independent risk control to ensure compliance with the Group's risk limits. The Group's risk limits are assessed regularly to ensure their appropriateness given the Group's objectives and strategies and current market conditions.

(e) Capital management

The responsibility of capital management lies with the assets and liabilities management committee which ensures that all strategies conform to the Group's risk appetite and levels of exposure. The committee is also responsible for recommending to the Board of directors, prudent capital management policies and procedures that will enable the Group to achieve its objectives and goals while operating in full compliance with all capital requirements.

The Central Bank of Kenya sets and monitors capital requirements for banks and other non-bank financial institutions. In implementing the current capital requirements Central Bank of Kenya requires the Group to maintain a prescribed ratio of total risk weighted assets. This requirement is calculated for market risk in the banking portfolio of HFC Limited.

The regulatory capital is analysed in two tiers:

- Tier 1 capital includes ordinary share capital, share premium, perpetual bonds, retained earnings, translation reserve and non-controlling interest after deduction of goodwill and intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserves relating to unrealized gains on equity instruments classified as available for sale.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Notes (Continued)

4 Financial risk management (continued)

(e) Capital management (continued)

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year except for core and total capital ratio. The Banking subsidiary, HFC Limited, received Shs 1 billion tier 2 capital injection from Britam Holdings Plc, the largest shareholder of HF Group Plc, on 1 February 2021.There has been no material change in the Bank's management of capital during the period. The regulatory capital position for HFC Limited, the Group's banking subsidiary, as at 31 December 2021 was as follows:

Tier 1 capital	2021 Shs'000	2020 Shs'000
Ordinary share capital	5,000,000	5,000,000
Share premium	3,513,662	3,513,662
Retained earnings	(4,367,055)	(4,226,070)
Deferred income tax asset	(974,939)	(665,745)
Total tier 1 capital	**3,171,718**	**3,621,847**
Tier 2 capital		
Subordinated debt	1,000,000	-
Regulatory reserves	480,480	578,502
Total tier 2 capital	**1,480,480**	**578,502**
Total regulatory capital	**4,652,198**	**4,200,349**
Risk weighted assets	**38,441,131**	**46,280,127**

Capital ratios	2021	2020
Total regulatory capital expressed as a percentage of total risk-weighted assets	12.10%	9.08%
CBK minimum requirement	14.50%	14.50%
Total tier 1 capital expressed as a percentage of risk-weighted assets	8.25%	7.83%
CBK minimum requirement	10.50%	10.50%

The Group was in breach of the regulatory capital ratios as at 31 December 2021, which were communicated to the Central Bank of Kenya (CBK). No penalties or fines were imposed by the CBK. The Group submitted their capital restoration plan and Bank's turnaround strategy to the CBK. The details of the directors' plans for the future have been detailed under Note 2 (a).

Central Bank of Kenya required the Group to maintain a minimum core capital of Shs 1 billion as at 31 December 2021. The Group is compliant with this requirement. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may limit the amount of dividends paid to shareholders.

Notes (Continued)

5. Operating segments

	Retail Banking		Corporate Banking		Property Development		Bancassurance		Others		Totals	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
Interest income	3,408,434	2,340,135	685,404	2,061,148	-	-	-	-	-	-	4,093,838	4,401,283
Interest expense	(1,435,283)	(1,337,991)	(669,159)	(1,131,308)	-	-	-	-	-	-	(2,104,442)	(2,469,299)
Net interest income	**1,973,151**	**1,002,144**	**16,245**	**929,840**	**-**	**-**	**-**	**-**	**-**	**-**	**1,989,396**	**1,931,984**
Non-interest income	286,841	350,637	97,184	25,516	78,778	29,704	59,582	60,985	131,752	141,525	522,386	466,843
Depreciation and amortization	-	(283,083)	-	(196,537)	(15,773)	15,886	(992)	(366)	(134)	(132)	(16,765)	(464,100)
Reporting segment profit/(loss) before income tax	1,026,585	(667,235)	(1,690,912)	(330,218)	(290,539)	(785,916)	42,608	26,130	(34,912)	(224,447)	(912,258)	(1,757,257)
Deposits balances	**35,192,947**	**16,571,935**	**3,201,682**	**24,624,098**			**-**	**-**	**-**	**-**	**38,394,629**	**41,196,033**
Other non-cash items												
Impairment losses on mortgage loans	(345,688)	(260,696)	-	(129,860)	-	-	-	-	-	-	(345,688)	(390,556)
Capital expenditure	-	53,692	-	45,398	228	-	-	280			**228**	**99,370**
Reportable segment assets	**36,469,676**	**26,399,895**	**15,628,559**	**28,078,165**	**3,229,916**	**3,297,897**	**141,279**	**98,535**	**9,887,407**	**9,875,139**	**55,469,429**	**57,874,492**
Reportable segment liabilities	**35,192,947**	**22,700,763**	**8,986,835**	**23,530,190**	**3,085,798**	**2,863,240**	**29,556**	**12,763**	**342,843**	**275,207**	**47,295,136**	**49,106,956**

Notes (Continued)

5. Operating segments (continued)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2021 Shs'000	2020 Shs'000
Net interest income		
Total net interest income for reportable segments	1,989,396	1,931,984
Other interest income adjustments	(125,908)	(81,926)
Consolidated net interest income	1,863,488	1,850,058
Non-interest income		
Total non-interest income for reportable segments	522,386	466,843
Other non-interest income	(19,893)	61,825
Consolidated non-interest income	502,493	528,668
Profit or loss		
Total profit or loss for reportable segments	(912,258)	(1,757,257)
Other profit or loss	36,506	(18,625)
Consolidated profit before income tax	(875,752)	(1,775,882)
Assets		
Total assets for reportable segments	55,469,429	57,874,492
Other assets	(2,565,911)	(2,429,243)
Consolidated total assets	52,903,518	55,445,249
Liabilities		
Total liabilities for reportable segments	47,295,136	49,106,956
Other liabilities	(2,327,938)	(2,223,495)
Consolidated total liabilities	44,967,199	46,883,461

Notes (Continued)

6 Interest income and expense

(a) Interest income

	Group		Company	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
Loans and advances	3,237,688	3,668,778	-	-
Loan origination fees	52,093	16,202	-	-
Financial assets at amortised cost	21,768	41,409	-	-
Financial assets at FVOCI	663,636	555,322	-	-
	3,975,185	**4,281,711**	**-**	**-**

(b) Interest expense

	Group		Company	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
Deposits from banks	168,375	154,219	-	-
Deposits from customers	1,519,600	1,799,430	-	-
Borrowings	335,647	379,112	-	-
Lease liabilities	71,616	66,488	-	-
	2,095,238	**2,399,249**	**-**	**-**

7 Fee and commission income

Fees and commissions charged for services provided or received by the Group and Company are recognised as the service is performed.

	Group		Company	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
Service fees and Commission / Transactional banking	196,146	169,103	-	-
Custodial services	15,267	5,139	-	-
House sales commission	4,522	37,953	-	-
	215,935	**212,195**	**-**	**-**

Notes (Continued)

8 Net trading income

	Group		Company	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
Foreign currency exchange gains	77,332	85,270	-	-
Fair value loss on derivatives	(28,982)	-	-	-
	48,350	**85,270**	**-**	**-**

9 Other income

	Group		Company	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
Rental income	69,998	104,422	-	-
Gain on sale of investment property	1,150	-	-	-
House sales income	47,783	-	-	-
Other	31,888	26,441	131,752	126,183
Insurance commission	70,887	67,929	-	-
Gain on disposal of equipment	42	7	-	-
	221,748	**198,799**	**131,752**	**126,183**

10 Other operating expenses

	Group		Company	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
Occupancy expenses	61,322	59,382	-	-
Deposit Protection Fund payment	76,888	57,771	-	-
Cost of sold houses	45,233	-	-	-
Marketing expenses	87,696	69,373	2,985	6,613
Information technology expenses	328,498	401,079	-	-
Legal expenses	123,066	312,260	-	-
Office expenses	169,799	757,474	82,804	282,891
General administration expenses	414,342	268,512	23,880	19,329
	1,306,844	**1,925,851**	**109,669**	**308,833**

Notes (Continued)

11 Employee benefits

The following items are included in salaries and employee benefits:

	Group		Company	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
Salaries and other staff costs	1,053,724	1,103,698	38,968	41,414
Remuneration to executive directors	50,293	51,144	16,865	15,027
NSSF contributions	1,656	1,102	4	5
Contributions to the defined contribution retirement scheme	76,863	71,219	182	107
	1,182,536	1,227,163	56,019	56,553
Average number of employees	**447**	**456**	**2**	**1**

12 Depreciation and amortisation

	Group		Company	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
Depreciation of property and equipment (Note 19)	113,599	150,162	134	132
Depreciation of investment property (Note 29)	24,545	31,348	-	-
Amortisation of intangible assets (Note 20)	231,139	226,931	-	-
Amortisation of right-of-use asset (Note 35)	86,685	91,951	-	-
	455,968	**500,392**	**134**	**132**

13 Income tax

Income tax credit

Current income tax at 30% (2020: 25%)	24,906	3,447	-	-
Prior year under provision of current tax	(70)	-	-	-
Deferred tax movement (Note 26)	(306,423)	(80,307)	(11,627)	(11,097)
Prior year deferred tax (under) /over provision (Note 26)	(875)	7,841	(946)	-
	(282,462)	**(69,019)**	**(12,573)**	**(11,097)**

Notes (Continued)

13 Income tax (continued)

The tax on the Group's and Company's loss before income tax differs from the theoretical amount using the basic tax rate as follows:

	Group		Company	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
Loss before income tax	(875,753)	(1,775,882)	(34,070)	(239,335)
Tax at the applicable tax rate of 30% (2020: 25%)	(262,726)	(443,971)	(10,221)	(59,834)
Effect of changes in tax rates	-	(13,385)	-	(1,850)
Prior year under provision of current tax	-	-	-	-
Prior year (under)/over provision of deferred tax	(875)	7,841	-	-
Tax effect of non-deductible costs and tax-exempt income	(18,861)	380,496	(2,352)	50,587
Income tax credit	**(282,462)**	**(69,019)**	**(12,573)**	**(11,097)**

(b) Current income tax recoverable

At start of year	344,929	151,220	41,682	34,157
Charge for the year	(24,905)	(3,447)	-	-
Paid during the year	7,669	197,157	5,265	7,525
Reclassification from withholding tax	15,053	-	-	-
Prior year under provision	-	-	-	-
At end of year	**342,746**	**344,930**	**46,947**	**41,682**

14 Earnings per share

Basic earnings per share is calculated based on the loss attributable to shareholders divided by the number of ordinary shares in issue in each year as follows:

	2021 Shs'000	2020 Shs'000
Net loss for the year attributable to shareholders	(593,291)	(1,706,863)
Number of ordinary shares in issue (000's)	384,614	384,614
Weighted average number of ordinary shares (000's)	384,614	384,614
Basic earnings per share	(1.54)	(4.44)
Weighted earnings per share	(1.54)	(4.44)

Notes (Continued)

15 Dividends

(a) Proposed dividends

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. No final dividend in respect of the year ended 31 December 2021 (2020: Nil) has been proposed. No interim dividend was paid during the year (2020: Nil). Therefore, no dividend has been declared for the year. Issued and fully paid ordinary shares were 384,614,168 as at 31 December 2021 (2020: 384,614,168).

(b) Reconciliation of dividends payable – Group and Company:

	2021 Shs'000	2020 Shs'000
At start of year	6,361	13,023
Proposed dividends (prior year)	-	-
Transfer from retained earnings	-	-
Dividends paid during the year	(6,115)	(6,662)
At end of year	**246**	**6,361**

16 (a) Cash and balances with banks

	Group		Company	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
Cash at hand	538,629	761,310	-	-
Balances with commercial banks	345,779	777,515	2,317	20,196
Placements with other banks (Note 17)	33,311	202,697		
Balances with Central Bank of Kenya:				
- Unrestricted	228,073	(942,556)	-	-
- Restricted (Cash Reserve Ratio)	1,595,612	1,688,236	-	-
	2,741,404	2,487,202	2,317	20,196
Allowance for impairment losses	(19)	(550)	-	-
	2,741,385	**2,486,652**	**2,317**	**20,196**

Notes (Continued)

16 (a) Cash and balances with banks

	Group		Company	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
Cash and balances with banks	2,708,074	2,284,217	2,317	20,196
Placement with other banks	33,311	202,435	-	-
	2,741,385	**2,486,652**	**2,317**	**20,196**

Movement in restricted balances:	2021 Shs'000	2020 Shs'000
Group		
At start of year	1,688,236	1,949,756
Movement during the year	(92,624)	(261,520)
At end of year	**1,595,612**	**1,688,236**

The Cash Reserve Ratio (CRR) is non-interest earning and is based on the value of deposits as adjusted for the Central Bank of Kenya requirements. At 31 December 2021, the Cash Reserve Ratio was 5.25% (2020: 4.25%) of all deposits. These funds are available for use by the Group in its day-to-day operations in a limited way provided that on any given day this balance does not fall below 3.00% requirement and provided that the overall average in the month is at least 5.25%. The restricted balances above are not available for use in the Group's day to day operations.

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Group	2021 Shs'000	2020 Shs'000
Cash and cash equivalents (Note 16(a))	1,204,273	1,058,416
Liquid investments:	6,550,168	6,845,617
Investment in government securities (Note 18)	(779,648)	(2,151,996)
Borrowings - repayable within one year (Note 30)	(3,518,701)	(1,476,231)
Borrowings - repayable after one year (Note 30)	(142,810)	(142,921)
Lease liabilities - repayable within one year (Note 35)	(436,593)	(507,830)
Lease liabilities - repayable within one year (Note 35)		
Net cash	**2,876,689**	**3,625,055**

Notes (Continued)

16 (b) Net debt reconciliation (continued)

Group	2021 Shs'000	2020 Shs'000
Cash and liquid investments	7,754,441	7,904,033
Gross debt - fixed interest rates	(2,453,584)	(3,318,673)
Gross debt - variable interest rates	(2,424,168)	(960,305)
	2,876,689	**3,625,055**

	Liquid assets		Borrowings		Leases	Total
	Cash and cash equivalents Shs' 000	Investment securities Shs' 000	Due within 1 year Shs' 000	Due after 1 year Shs' 000	Lease liabilities Shs' 000	Shs' 000
Year ended 31 December 2021						
At start of year	1,058,416	6,845,617	(2,151,996)	(1,476,231)	(650,751)	3,625,055
Cash flows	126,070	(295,150)	1,372,348	(2,042,470)	142,964	(696,238)
Non-cash movements	-	(299)	-	-	(71,617)	(71,916)
Foreign exchange	1,287	-	-	-	-	1,287
At end of year	**1,185,773**	**6,550,168**	**(779,648)**	**(3,518,701)**	**(579,403)**	**2,858,189**
Year ended 31 December 2020						
At start of year	2,337,779	4,102,869	(1,769,578)	(4,034,145)	(714,751)	(77,826)
Cash flows	(1,293,327)	2,819,800	(382,418)	2,557,914	130,488	3,832,457
Non-cash movements	-	(77,052)	-	-	(66,488)	(143,540)
Foreign exchange	13,964	-	-	-	-	13,964
At end of year	**1,058,416**	**6,845,617**	**(2,151,996)**	**(1,476,231)**	**(650,751)**	**3,625,055**

Notes (Continued)

17 Placements with other banks

	Group	
	2021 Shs'000	2020 Shs'000
Placements with other banks	33,555	202,697
Less: Allowance for impairment losses	(244)	(262)
	33,311	**202,435**

The weighted average effective interest rate on placements with other banks was 3.53% (2020: 5.97%).

18 Investment in government securities

Held at amortised cost	Group	
	2021 Shs'000	2020 Shs'000
Treasury bills and bonds	1,825,422	1,941,696
FVOCI		
Treasury bonds	4,724,746	5,163,921
	6,550,168	**7,105,617**

The weighted average effective interest rate on investment securities at 31 December was 11.70% (2020: 10.58%).

The table below shows the movement in the investments in the year:

Held at amortised cost	Group	
	2021 Shs'000	2020 Shs'000
At start of year	1,941,696	628,621
Purchases during the year	1,185,750	1,680,000
Sales/maturities during the year	(1,301,662)	(366,925)
Less: Allowance for impairment losses	(362)	-
At end of year	**1,825,422**	**1,941,696**
Fair value through other comprehensive income (FVOCI)		
At start of year	5,163,921	3,974,248
Purchases during the year	8,650,050	2,850,000
Sales/maturities during the year	(9,088,926)	(1,584,555)
(Loss)/gains on fair valuation	(299)	(75,772)
At end of year	**4,724,746**	**5,163,921**
Total investment securities	**6,550,168**	**7,105,617**

Notes (Continued)

18 Investment in government securities (continued)

Maturity analysis for the investments in government securities	Group	
	2021 Shs'000	2020 Shs'000
Maturing within 90 days	40,000	260,000
Maturing after 90 days	6,510,168	6,845,617
Total	**6,550,168**	**7,105,617**

19 Property and equipment

(a) Group	Freehold land	Buildings	Furniture, fixtures, equipment & motor vehicles	Total
Year ended 31 December 2021	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Cost or valuation				
At start of year	62,000	905,183	1,267,451	2,234,634
Additions	-	-	9,727	9,727
Disposals	-	-	(446)	-
At end of year	**62,000**	**905,183**	**1,276,732**	**2,243,915**
Comprising:				
At cost	10,000	655,183	1,276,732	1,941,915
At valuation	52,000	250,000	-	302,000
	62,000	**905,183**	**1,276,732**	**2,243,915**
Accumulated depreciation				
At start of year	-	36,956	959,998	996,954
Charge for the year	-	15,579	98,020	113,599
Disposals	-	-	(166)	(166)
Transfers	-	-	(437)	(437)
At end of year	**-**	**52,535**	**1,057,415**	**1,109,950**
Net book value at end of year	**62,000**	**852,648**	**219,317**	**1,133,965**

Notes (Continued)

19 Property and equipment

(b) Group	Freehold land	Buildings	Furniture, fixtures, equipment & motor vehicles	Total
Year ended 31 December 2020	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Cost or valuation				
At start of year	62,000	805,183	1,239,746	2,106,929
Additions	-	-	32,409	32,409
Disposals	-	-	(216)	(216)
Transfers	-	-	(4,488)	(4,488)
Revaluation	-	100,000	-	100,000
At end of year	**62,000**	**905,183**	**1,267,451**	**2,234,634**
Comprising:				
At cost	10,000	655,183	1,266,591	1,931,774
At valuation	52,000	250,000	860	302,860
	62,000	**905,183**	**1,267,451**	**2,234,634**
Accumulated depreciation				
At start of year	-	61,774	826,749	888,523
Charge for the year	-	12,258	137,904	150,162
Disposals	-	-	(166)	(166)
Transfers	-	-	(4,489)	(4,489)
Revaluation gain	-	(37,076)	-	(37,076)
At end of year	**-**	**36,956**	**959,998**	**996,954**
Net book value at end of year	**62,000**	**868,227**	**307,453**	**1,237,680**

Notes (Continued)

19 Property and equipment (continued)

The land and buildings were revalued on 16 December 2020 by Tyson's Limited, a firm of independent professional valuers based on open market value approach. The resulting surplus was credited to revaluation reserve. The motor vehicle was revalued at 860,000 in year 2018 after being fully depreciated while still in use. The net book value of properties at their historical cost is as follows:

	Group	
	2021 Shs'000	2020 Shs'000
Free hold land	52,000	52,000
Buildings	555,308	584,350
	607,308	**636,350**

The historical cost of free hold land is Shs 52,000,000 and buildings is Shs 655,290,000.

Included in equipment are assets with a gross value of Shs 680,987,412 (2020: Shs 323,926,246) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of Shs 85,123,426 (2020: Shs 64,785,249). Revaluation of the Bank's assets is done after every 3 years.

The net book value of the revalued motor vehicle at its historical cost is as follows:

	2021 Shs'000	2020 Shs'000
Motor vehicle	344	516

(b) Company	Furniture, fixtures, equipment & motor vehicles	
	2021 Shs'000	2020 Shs'000
Cost or valuation		
At start of year	801	801
Additions	118	-
At end of year	**919**	**801**
Accumulated depreciation		
At start of year	383	251
Charge for the year	134	132
At end of year	**517**	**383**
Net book value at end of year	**402**	**418**

Notes (Continued)

20 Intangible assets

	Group 2021 Shs'000	Group 2020 Shs'000
Cost:		
At start of year	1,860,391	1,793,711
Additions during the year	47,758	66,680
At end of year	**1,908,149**	**1,860,391**
Accumulated amortisation		
At start of year	1,157,137	930,206
Amortisation during the year	231,139	226,931
At end of year	**1,388,276**	**1,157,137**
Net book value at end of year	**519,873**	**703,254**

Included in the intangible assets is the Group's banking subsidiary, HFC Limited Core Banking Software at a cost of Shs 1,294,905,015 that was rolled out on 1 January 2016, whose estimated useful life is 8 years.

21 Investments in subsidiary companies and joint ventures

(a) Subsidiaries

		Company 2021 Shs'000	Company 2020 Shs'000
HFC Limited	100%	8,513,662	8,513,662
HF Development and Investment Limited (HFDI)	100%	1,243,912	1,243,912
First Permanent (East Africa) Limited (FPEAL)	100%	5,020	5,020
HF Insurance Agency Limited (HFIA)	100%	5,000	100
		9,767,594	**9,762,694**

Notes (Continued)

21 Investments in subsidiary companies (continued)

(b) Investment in Joint ventures & associate

		Group	
At start of year		**2021 Shs'000**	**2020 Shs'000**
Kahawa Downs Limited	50%	119,971	151,474
Precious Heights Limited	50%	88,101	90,906
Richland Development Limited	50%	96,861	155,789
Claycity Limited	33%	489,330	490,604
Theta Dam Estate Limited	50%	840,817	842,441
		1,635,079	**1,731,214**
Group's share of loss in joint ventures			
Kahawa Downs Limited	50%	(7,870)	(31,503)
Precious Heights Limited	50%	(2,060)	(2,805)
Richland Development Limited	50%	(94)	(58,928)
Claycity Limited	33%	(3,362)	(1,274)
Theta Dam Estate Limited	50%	(2,354)	(1,623)
		(15,740)	**(96,133)**
Capital reduction Theta Dam Estate		(75,000)	-
At end of year		**1,544,339**	**1,635,079**

The Group has classified its interest in these entities as a joint venture, which is equity accounted.

Notes (Continued)

21 Investment In subsidiary companies (continued)

(b) Joint ventures (continued)

The following are summarized financial information for Kahawa Downs Limited, Precious Heights Limited, Richland Development Limited, Claycity Limited and Theta Dam Estate Limited based on their financial statements prepared in accordance with IFRS.

Group Year ended 31 December 2021	Kahawa Development Limited Shs'000	Precious Heights Limited Shs'000	Richland Development Limited Shs'000	Claycity Limited Shs'000	Theta Dam Estate Limited Shs'000	Total Shs' 000
% Holding	**50%**	**50%**	**50%**	**33%**	**50%**	
Revenue	5,454	373	2,946	177	-	8,950
Operating costs	(21,194)	(6,259)	(2,572)	(10,312)	(4,709)	(45,046)
Income tax expense	-	1,766	(561)	(53)	-	1,152
Loss and other comprehensive income	**(15,740)**	**(4,120)**	**(187)**	**(10,188)**	**(4,709)**	**(34,944)**
Group share of net loss	**(7,870)**	**(2,060)**	**(93)**	**(3,362)**	**(77,355)**	**(90,740)**
Net assets	224,202	172,082	193,535	1,472,630	1,526,923	3,589,372
Groups share of net assets	**112,101**	**86,041**	**96,768**	**485,968**	**763,461**	**1,544,339**
Group's interest in net assets at the beginning of the year	119,971	88,101	96,861	489,330	840,816	1,635,079
Group share of current year total comprehensive income	(7,870)	(2,060)	(93)	(3,362)	(77,355)	(90,740)
	112,101	**86,041**	**96,768**	**485,968**	**763,462**	**1,544,339**

Notes (Continued)

21 Investment In subsidiary companies (continued)

(b) Joint ventures (continued)

Group Year ended 31 December 2020	Kahawa Development Limited Shs'000	Precious Heights Limited Shs'000	Richland Development Limited Shs'000	Claycity Limited Shs'000	Theta Dam Estate Limited Shs'000	Total Shs' 000
% Holding	**50%**	**50%**	**50%**	**33%**	**50%**	
Revenue	7,462	401	(86,509)	500	-	(78,146)
Operating costs	(38,401)	(8,414)	(30,995)	(5,785)	(3,249)	(86,844)
Income tax expense	(32,066)	2,404	(353)	1,425	-	(28,590)
Loss and other comprehensive income	**(63,005)**	**(5,609)**	**(117,857)**	**(3,860)**	**(3,249)**	**(193,580)**
Group share of net loss	**(31,503)**	**(2,805)**	**(58,928)**	**(1,274)**	**(1,623)**	**(96,133)**
Net assets	239,942	176,202	193,722	1,482,818	1,681,632	3,774,316
Groups share of net assets	**119,971**	**88,101**	**96,861**	**489,330**	**840,816**	**1,635,079**
Group's interest in net assets at the beginning of the year	151,474	90,906	155,789	490,604	842,441	1,731,214
Group share of current year total comprehensive income	(31,503)	(2,805)	(58,928)	(1,274)	(1,623)	(96,133)
	119,971	**88,101**	**96,861**	**489,330**	**840,816**	**1,635,079**

Notes (Continued)

22 Loans and advances at amortised cost

Group	2021 Shs'000	2020 Shs'000
Gross loans and advances to banks	-	201,650
Less: provision for impairment losses	-	(141)
Net loans and advances to banks	**-**	**201,509**
Gross loans and advances to customers	38,049,266	40,428,074
Less: Provision for impairment losses	(3,356,641)	(3,631,110)
Net loans and advances to customers	**34,692,625**	**36,796,964**
Maturing:		
Within five years	13,646,339	13,318,023
Over five years to ten years	11,927,124	13,126,505
Over ten years to fifteen years	7,419,557	8,848,199
Over fifteen years	5,056,246	5,336,997
Gross loans and advances	**38,049,266**	**40,629,724**

During the year, HFC Limited, the banking subsidiary of the Group, purchased properties worth Shs.152,597,000 (2020: Shs 31,500,000) from distressed borrowers in full realization of the debt owed to the Company. These properties have been classified as investment properties (Refer Note 28).

31 December 2021	Stage 1 12-month ECL Shs' 000	Stage 2 Lifetime ECL Shs' 000	Stage 3 Lifetime ECL Shs' 000	Total Shs' 000
Gross loans and advances	22,086,457	7,290,049	8,672,760	38,049,266
Loss allowance	(13,152)	(399,871)	(2,943,618)	(3,356,641)
Net loans and advances	**22,073,305**	**6,890,178**	**5,729,142**	**34,692,625**
31 December 2020				
Gross loans and advances	23,272,585	6,558,292	10,798,847	40,629,724
Loss allowance	(78,051)	(349,846)	(3,203,354)	(3,631,251)
Net loans and advances	**23,194,534**	**6,208,446**	**7,595,493**	**36,998,473**

Notes (Continued)

22 Loans and advances at amortised cost (continued)

	Gross		Net	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
Current portion	7,319,683	8,763,992	6,673,953	8,110,768
Non-current portion	30,729,583	31,865,732	28,018,672	28,887,705
	38,049,266	**40,629,724**	**34,692,625**	**36,998,473**

Impairment of loans and advances

Year ended 31 December 2021	Stage 1 12-month ECL Shs' 000	Stage 2 Lifetime ECL Shs' 000	Stage 3 Lifetime ECL Shs' 000	Total Shs' 000
Loss allowance at start of year	78,051	349,846	3,203,354	3,631,251
Movements during the year:				
Transfer to 12 months ECL	61,241	(45,786)	(15,455)	-
Transfer to lifetime ECL not credit impaired	(10,747)	46,772	(36,025)	-
Transfer to lifetime ECL credit impaired	(1,016)	(4,520)	5,536	-
Net remeasurement of loss allowance	(151,196)	(95,805)	1,323,931	1,076,930
Net financial assets originated	52,641	164,883	142,509	360,033
Financial assets derecognised	(15,822)	(15,519)	(893,407)	(924,748)
Write offs	-	-	(786,825)	(786,825)
Loss allowance as at end of year	**13,152**	**399,871**	**2,943,618**	**3,356,641**

Year ended 31 December 2020	Stage 1 12-month ECL Shs' 000	Stage 2 Lifetime ECL Shs' 000	Stage 3 Lifetime ECL Shs' 000	Total Shs' 000
Loss allowance at start of year	42,984	86,683	3,477,370	3,607,037
Movements during the year:				
Transfer from 12 months ECL	(5,996)	5,603	393	-
Transfer from lifetime ECL not credit impaired	23,949	(26,849)	2,900	-
Transfer from lifetime ECL credit impaired	32,647	111,247	(143,894)	-
Net remeasurement of loss allowance	(51,516)	(86,035)	404,330	266,779
Net financial assets originated	44,208	263,935	83,783	391,926
Financial assets derecognised	(8,225)	(4,738)	(341,850)	(354,813)
Write offs	-	-	(279,678)	(279,678)
Loss allowance as at end of year	**78,051**	**349,846**	**3,203,354**	**3,631,251**

Notes (Continued)

22 Loans and advances at amortised cost (continued)

	2021			
Year ended 31 December 2021	**Stage 1 12-month ECL Shs' 000**	**Stage 2 Lifetime ECL Shs' 000**	**Stage 3 Lifetime ECL Shs' 000**	**Total Shs' 000**
Gross carrying amount at start of year	23,272,585	6,558,292	10,798,847	40,629,724
Transfer to 12 months ECL	1,614,743	(1,563,171)	(51,572)	-
Transfer to lifetime ECL not credit impaired	(2,193,566)	2,307,147	(113,581)	-
Transfer to lifetime ECL credit impaired	(86,215)	(295,908)	382,123	-
Net remeasurement	(1,942,437)	(131,172)	(333,792)	(2,407,401)
Net financial assets originated	5,381,775	1,486,267	276,304	7,144,346
Financial assets derecognised	(3,960,428)	(1,071,406)	(2,285,569)	(7,317,403)
	(1,186,128)	**731,757**	**(2,126,087)**	**(2,580,458)**
Gross carrying amount at end of year	**22,086,457**	**7,290,049**	**8,672,760**	**38,049,266**
Year ended 31 December 2020				
Gross carrying amount at start of year	26,351,198	3,719,574	12,316,003	42,386,775
Transfer to 12 months ECL	1,024,611	(576,987)	(447,624)	-
Transfer to lifetime ECL not credit impaired	(1,900,044)	1,900,044	-	-
Transfer to lifetime ECL credit impaired	(103,691)	(129,412)	233,103	-
Net remeasurement	(1,843,644)	219,589	51,941	(1,572,114)
Net financial assets originated	1,763,479	1,799,297	197,970	3,760,746
Financial assets derecognised	(2,019,324)	(373,813)	(1,552,546)	(3,945,683)
	(3,078,613)	**2,838,718**	**(1,517,156)**	**(1,757,051)**
Gross carrying amount at end of year	**23,272,585**	**6,558,292**	**10,798,847**	**40,629,724**

The weighted average effective interest rate on loan advances to customers as at 31 December 2021 was 13.4% (2020: 10.28%).

Notes (Continued)

22 Loans and advances at amortised cost (continued)

Loss allowance on financial instruments

The following table provides a reconciliation between the 'impairment losses on financial instruments' line item in the statement of profit or loss and other comprehensive income

	Loans and advances to banks Shs'000	Loans and advances to customers Shs'000	Guarantees and letters of credit Shs'000	Cash and cash equivalents Shs'000	Other financial assets and receivables Shs'000	Total Shs' 000
Year ended 31 December 2021						
Net re-measurement of loss allowance	-	1,076,930	12,321	(169)	8,942	1,104,399
Financial assets derecognised	-	(924,748)	-	-	-	(924,748)
New financial assets originated or purchased	-	102,564	-	-	-	102,564
Modification losses	-	(1,570)	-	-	-	(1,570)
	-	**253,176**	**12,321**	**(169)**	**8,942**	**280,645**

Year ended 31 December 2020

	Loans and advances to banks Shs'000	Loans and advances to customers Shs'000	Guarantees and letters of credit Shs'000	Cash and cash equivalents Shs'000	Other financial assets and receivables Shs'000	Total Shs' 000
Year ended 31 December 2021						
Net re-measurement of loss allowance	127	266,779	7,040	(434)	26,918	300,430
Financial assets derecognised	-	(354,813)	-	-	-	(354,813)
New financial assets originated or purchased	-	435,205	-	-	-	435,205
Modification losses	-	24,247	-	-	-	24,247
	127	**371,418**	**7,040**	**(434)**	**26,918**	**405,069**

Notes (Continued)

22 Loans and advances at amortised cost (continued)

Analysis of loans per segment

Segment	2021 Gross Shs'000	2021 Loss allowance Shs'000	2021 Carrying amount Shs'000	2020 Gross Shs'000	2020 Loss allowance Shs'000	2020 Carrying amount Shs'000
Commercial	3,988,518	(352,472)	3,636,046	2,949,952	(314,438)	2,635,514
IPF	30,764	(997)	29,767	53,290	(1,117)	52,174
Micro	10	(6)	4	16	(11)	5
Mortgage	24,138,451	(927,455)	23,210,996	26,397,651	(1,300,400)	25,097,251
Projects	8,955,214	(1,894,928)	7,060,286	10,780,834	(1,882,243)	8,898,591
Unsecured	936,309	(180,783)	755,526	447,981	(133,042)	314,939
	38,049,266	**(3,356,641)**	**34,692,625**	**40,629,724**	**(3,631,252)**	**36,998,473**

Notes (Continued)

22 Loans and advances at amortised cost (continued)

Analysis of impairment of loans and advances per segment

	2020						
	Mortgage	Projects	Commercial	IPF	Micro	Unsecured	Total
Stage 3	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	1,005,815	1,855,022	229,154	664	11	112,688	3,203,354
Remeasurement	(137,110)	95,378	62,139	(267)	-	26,670	46,810
At end of year	**868,705**	**1,950,400**	**291,293**	**397**	**11**	**139,358**	**3,250,164**
Stage 1 & 2							
At start of year	294,585	27,219	85,284	453	-	20,356	427,897
Remeasurement	(339,315)	84,666	(86,088)	237	(5)	19,085	(321,420)
At end of year	**(44,730)**	**111,885**	**(804)**	**690**	**(5)**	**39,441**	**106,477**

Notes (Continued)

22 Loans and advances at amortised cost (continued)

Analysis of impairment of loans and advances per segment

	2020						
	Mortgage	Projects	Commercial	IPF	Micro	Unsecured	Total
Stage 3	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	1,145,630	1,069,901	1,181,488	9	3,032	77,309	3,477,370
Remeasurement	(139,815)	785,121	(952,334)	655	(3,021)	35,377	(274,016)
At end of year	**1,005,815**	**1,855,022**	**229,154**	**664**	**11**	**112,686**	**3,203,354**
Stage 1 & 2							
At start of year	73,733	4,704	36,789	222	23	14,196	129,667
Remeasurement	220,852	22,515	57,476	231	(23)	6,160	298,230
At end of year	**294,585**	**27,219**	**85,284**	**453**	**-**	**20,356**	**427,897**

Notes (Continued)

23 Other assets

	Group		Company	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
Trade receivables	521,542	452,108	16,825	925
Less: Allowance for impairment losses	(40,504)	(24,825)	(6,970)	-
	481,038	**427,283**	**9,855**	**925**
Payment on deposits	-	-	-	-
Prepayments	162,503	168,338	500	720
Receivable from KMRC	50,000	50,000	-	-
Foreclosed assets	381,200	337,769	-	-
	1,074,741	**983,390**	**10,355**	**1,645**
12-month ECL:				
At start of year	(24,825)	(96,269)	-	(57,259)
Re-measurement during the year	(15,679)	71,444	(6,970)	57,259
At end of year	**(40,504)**	**(24,825)**	**(6,970)**	**-**

Other assets are settled no more than 12 months after the reporting date. All the balances are non-interest bearing.

24 Investment in property fund

	2021 Shs'000	2020 Shs'000
Assets as at start of the year	324,251	788,040
Impairment gain / (loss)	55,956	(463,789)
As at end of the year	**380,207**	**324,251**

The assets owned by the property fund will be realized progressively and the proceeds distributed to the partners in accordance with the partnership agreement. Crescent Finco will receive cash distribution first until its investment plus a return of 12% is fully paid. The residue will be distributed to HFDI Limited.

25 Inventories

	Group	
	2021 Shs'000	2020 Shs'000
Inventories (housing units)	**462,658**	**514,422**

Inventories held comprise of 2- and 3-bedroom units at Komarock Heights.

Notes (Continued)

26 Deferred income tax

(a) Group

Year ended 31 December 2021	At start of year Shs'000	Recognised in profit or loss Shs' 000	Recognised in other comprehensive income Shs'000	Prior year under provision Shs'000	At end of year Shs'000
Property and equipment	(210,895)	63,087	-	-	(147,808)
Revaluation surplus	(53,230)	-	-	(70)	(53,300)
Financial assets at FVOCI	(6,406)	-	90	-	(6,316)
Other general provisions	(9,818)	27,200	-	-	17,382
Right of use asset	(32,815)	126,021	-	-	93,206
Unrealised exchange losses	1	-	-	-	1
Trading losses	568,859	155,505	-	945	725,309
General provision on loans and advances	1,049,363	(65,390)	-	-	983,973
Deferred income tax	**1,305,059**	**306,423**	**90**	**875**	**1,612,447**

Notes (Continued)

26 Deferred income tax

(a) Group

Year ended 31 December 2020	At start of year Shs'000	Recognised in profit or loss Shs' 000	Recognised in other comprehensive income Shs'000	Prior year under provision Shs'000	At end of year Shs'000
Property and equipment	(255,232)	43,160	-	1,177	(210,895)
Revaluation surplus	(46,376)	-	(6,854)	-	(53,230)
Financial assets at FVOCI	(29,138)	-	22,732	-	(6,406)
Other general provisions	13,062	(13,862)	-	(9,018)	(9,818)
Right of use asset	48,895	(81,710)	-	-	(32,815)
Unrealised exchange losses	1	-	-	-	1
Trading losses	334,222	234,637	-	-	568,859
General provision on loans and advances	1,151,281	(101,918)	-	-	1,049,363
Deferred income tax	**1,216,715**	**80,307**	**15,878**	**(7,841)**	**1,305,059**

The aging of group tax losses as at the reporting date is as shown below:

Year of origination	Loss brought forward	Taxable losses	Loss carried forward	Year of expiry
2016	-	(50,110)	(50,110)	2025
2017	(50,110)	(200,670)	(250,780)	2026
2019	(250,780)	(436,510)	(687,290)	2027
2019	(687,290)	(426,784)	(1,114,074)	2028
2020	(1,114,074)	(782,123)	(1,896,197)	2029
2021	(1,896,197)	(273,337)	(2,169,534)	2030

Notes (Continued)

26 Deferred income tax (continued)

(b) Company

Year ended 31 December 2021	At start of year Shs'000	Recognised in profit or loss Shs'000	At end of year Shs'000
Property and equipment	(27)	13	(14)
Trading losses	10,978	(1,512)	9,466
General provisions	26,253	14,071	40,325
Net deferred tax	**37,204**	**12,572**	**49,777**
Year ended 31 December 2020			
Property and equipment	(43)	16	(27)
Trading losses	17,286	(6,308)	10,978
General provisions	8,864	17,389	26,253
Net deferred tax	**26,107**	**11,097**	**37,204**

The aging of company tax losses as at the reporting date is as shown below:

Year of origination	Loss brought forward	Taxable Losses	Loss carried forward	Year of expiry
2020	(57,619)	(57,965)	(115,584)	2029
2021	(115,584)	(43,754)	(159,338)	2030

27 Deposits from customers

	Group 2021 Shs'000	2020 Shs'000
Government and parastatals:		
Payable within 90 days	2,704,529	2,658,898
Payable after 90 days and within one year	550	526
Payable after one year	4,937,695	4,892,233
Private sector and individuals:		
Payable within 90 days	17,865,571	20,554,622
Payable after 90 days and within one year	5,942,167	5,620,107
Payable after one year	6,264,402	6,218,104
	37,714,914	**39,944,490**

Notes (Continued)

27 Deposits from customers (continued)

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2021 was 4.03% (2020: 7.5%). The carrying value of customer deposits approximates their fair value.

The summary of terms and conditions for the various categories of deposits are below:

(a) Mortgage scheme deposits – These are deposits under scheme arrangements where an employer has provided funds for onward lending to their staff within set rules and regulations. Funded schemes have a lower interest rate than the market whereas for unfunded schemes the interest rates are usually at commercial rates and any discount on rates is based on volumes.

(b) Fixed term deposits – This account targets both individuals and corporates that will not need to access their funds for duration of time which is usually from 1 to 12 months. The minimum operating balance is Shs 50,000.

(c) Housing development bond – This account targets individuals who wish to save towards home ownership while at the same time earning attractive interest rates on their deposits. interest earned is subjected to a 10% withholding tax consolidated amount of up to Shs 300,000 as opposed to the normal rate of 15%. The minimum operating balance is Shs 50,000.

(d) Transactional deposits – These accounts are characterized by unlimited access to funds and they earn no interest. They attract fees based on transactions. The minimum opening balance is Shs 200.

(e) Current accounts – It allows unlimited access to funds through various channels with the cheque book being the unique instrument used to access the funds. It earns no interest. The minimum opening balance is Shs 2,000.

(f) Savings accounts - A savings account that earns relatively higher interest. It has limited access to funds. There's no minimum operating balance.

Deposits from banks

	Group	
	2021 Shs'000	2020 Shs'000
Money market deposits	**601,606**	**1,190,118**

The weighted average interest rate on deposits from banks was 4.8% (2020: 5.0%).

Notes (Continued)

28 Other liabilities

	Group		Company	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
House sales deposits	303,827	318,413	-	-
Withholding tax payable	77,154	57,576	-	-
Sundry creditors	35,232	31,611	-	-
Trade creditors	417,786	272,306	-	-
Insurance premium payable	328,637	324,183	-	-
Deferred expenses	-	19,959	-	-
Contractors payables	259,437	225,529	-	-
Deposits due to the property fund	-	-	-	-
Asset retirement obligation – right of use asset	18,383	16,477	-	-
Other payables	218,414	144,600	341,828	267,763
	1,658,870	**1,410,654**	**341,828**	**267,763**

29 Investment property

	Group	
	2021 Shs'000	2020 Shs'000
Cost or valuation		
At start of year	1,331,347	1,293,499
Additions during the year	171,756	37,848
Disposal	(19,159)	-
At end of year	**1,483,944**	**1,331,347**
Accumulated depreciation		
At start of year	68,079	36,731
Charge for the year	24,545	31,348
Disposal	(555)	-
At end of year	**92,069**	**68,079**
Net book value at end of year	**1,391,875**	**1,263,268**

The investment property includes a commercial property that is leased to third parties and property acquired by the banking subsidiary through foreclosures. The open market value of these properties is Shs 697,100,000. The Bank acquired property worth Shs 143,000,000 during the year.

Notes (Continued)

29 Investment property (continued)

Each of the leases contains an initial non-cancellable period, with annual rents indexed to consumer prices. No contingent rents are charged.

The commercial property was independently valued by Tyson's Limited in 2019. The valuer is registered and licensed by the Valuers Registration Board of Kenya and has the relevant experience and knowledge of valuing the various properties in the portfolio. The property was valued at Shs 1,100,000,000.

Additions during the year were as follows for the purposes of the statement of cash flows:

	2021 Shs'000	2020 Shs'000
Additions during the year	**171,756**	**37,848**

30 Borrowings

	Group	
	2021 Shs'000	**2020 Shs'000**
European Investment Bank (EIB)	1,523,134	2,012,722
Shelter Afrique	615,376	726,714
East African Development Bank	452,691	655,200
Arab Bank for Economic Development in Africa	209,549	233,991
Britam	1,022,691	-
Kenya Mortgage Refinance Company	474,908	-
	4,298,349	**3,628,227**
Current	3,888,548	2,151,996
Non-current portion	409,801	1,476,231
	4,298,349	**3,628,227**
Movement during the year		
At start of year	3,628,227	5,803,723
Receipt	1,514,574	-
Interest expense charged during the year	-	377,649
Payments on interest	-	(377,649)
Payments on principal	(844,452)	(2,175,496)
At end of year	**4,298,349**	**3,628,227**

During the year, the Group did not default on any of the loan repayment obligations from all the existing lenders.

Notes (Continued)

30 Borrowings (continued)

During the year, HFC Limited, the banking subsidiary of the Group was in breach of loan covenants with the following institutions as described below:

Lender	Covenant	Required limit	HFC ratio at end of year
Shelter Afrique	Capital Adequacy Ratio	Minimum of 14.5%	12.10%
	Cost to income ratio	Maximum of 60%	127.46%
East African Development Bank	Capital Adequacy Ratio	Minimum of 14.5%	12.10%
	Single Obligor Ratio	Maximum of 25%	40.65%
	Single Insider Ratio	Maximum of 20%	66.13%
	Investment in land and Building Ratio	Maximum of 20%	52.00%
Arab Bank for Economic Development in Africa (BADEA)	Capital Adequacy Ratio	Minimum of 14.5%	12.10%
Britam	Capital Adequacy Ratio	Minimum of 14.5%	12.10%
	Single Obligor Ratio	Maximum of 25%	40.65%
	Single Insider Ratio	Maximum of 20%	66.13%
European Investment Bank	Capital Adequacy Ratio	Minimum of 14.5%	12.10%
	Non Performing Loans to Total Loans Ratio	Maximum of 15%	34.53%
	Provisions for non-performing loans	Maximum 25%	21.67%

The Bank has obtained waivers for the covenant breaches from Britam and EADB subsequent to year end. At the year end, the Bank had obtained waivers from the following financiers

a) Shelter Afrique - A waiver on the capital adequency ratio till 2021, related party ratio at 20% moratorium granted till 2022, cost to income remain at 98% in 2021.

b) East African Development Bank - A waiver had only been received on the NPL ratio to be maintained at 27% in 2021.

c) Arab Bank for Economic Development in Africa (BADEA) - A waiver on the capital adequency ratio till 2021 and NPL ratio till 2024.

For the waivers received and do not cover 12 months after year end we have disclosed the breaches above and classified the loans as current. No waivers have been received for EIB.

Notes (Continued)

30 Borrowings (continued)

31 December 2021 Lender	Loan balance Shs' 000	Current Shs' 000	Non-current Shs' 000	Currency	Interest rate	Issue date	Maturity date
European Investment Bank (EIB)	1,523,134	1,523,134	-	USD	4.321%	24 July 2017	1 October 2026
Shelter Afrique Limited	615,376	615,376	-	USD	6 months USD Libor plus a margin of 6.35%.	28 December 2015	31 January 2026
East African Development Bank (EADB)	452,691	452,691	-	USD	7.25%	23 December 2016	23 December 2024
Arab Bank for Economic Development in Africa (BADEA)	209,549	209,549	-	USD	6 months USD Libor plus a margin of 5%.	5 March 2018	23 December 2028
Britam	1,022,691	1,022,691	-	KES	12.94%	01 February 2021	01 February 2028
Kenya Mortgage Refinance Company	474,908	65,107	409,801	KES	5%	5 March 2018	23 December 2028
	4,298,349	**3,888,548**	**409,801**				

Notes (Continued)

30 Borrowings (continued)

31 December 2020	Loan balance Shs' 000	Current Shs' 000	Non-current Shs' 000	Currency	Interest rate	Issue date	Maturity date
European Investment Bank (EIB)	2,012,722	536,491	1,476,231	USD	4.321%	24 July 2017	1 October 2026
Shelter Afrique Limited	726,314	726,314	-	USD	6.66%	28 December 2015	31 January 2026
East African Development Bank (EADB)	655,200	655,200	-	USD	7.25%	23 December 2016	23 December 2024
Arab Bank for Economic Development in Africa (BADEA)	233,991	233,991	-	USD	6.20%.	5 March 2018	23 December 2028
	3,628,227	**2,151,996**	**1,476,231**				

The interest rate for EIB, KMRC and EADB loan is fixed whereas for the other loans, interest rate is based on Libor + margin.

There are no assets held as security for the borrowings.

31 Capital and reserves

(a) Share capital

	Group		Company	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
Authorised – 500,000,000 (2020: 500,000,000) ordinary shares of Shs 5 each	2,500,000	2,500,000	2,500,000	2,500,000
Issued and fully paid - 384,614,168 (2020: 384,614,168) ordinary shares of Shs 5 each	1,923,071	1,923,071	1,923,071	1,923,071
Movement in ordinary shares				-
At start and end of year (384,614,168)	**384,614**	**384,614**	**384,614**	**384,614**
In monetary terms:				-
At start and end of year	**1,923,071**	**1,923,071**	**1,923,071**	**1,923,071**

Notes (Continued)

31 Capital and reserves

(a) Share capital (continued)

The holders of ordinary shares rank equally with regard to the Company's residual assets, are entitled to receive dividends declared from time to time and are entitled to one vote per share at general meetings of the Company. Issued and fully paid ordinary shares were 384,614,168 as at 31 December 2021 (2020: 384,614,168). In 2019, 120,000 shares were issued under employee share ownership program at Shs 10 per share leading to a share premium of Shs 600,000 (Shs 5 per share).

(b) Share premium

This reserve arises when the shares of the Company are issued at a price higher than the nominal (Par) value. In 2018, 120,000 shares were issued under employee share ownership program at Shs 10 per share leading to a share premium of Shs 600,000 (Shs 5 per share).

	2021 Shs'000	2020 Shs'000
At start of year	4,343,512	4,343,512
Issue of shares at a premium	-	-
At end of year	**4,343,512**	**4,343,512**

(c) Revaluation reserve

The revaluation reserves include the net change in the fair value of land, buildings and motor vehicle and are to be held until the property is derecognised.

	2021 Shs'000	2020 Shs'000
At start of year	1,012,125	881,903
Change in fair value during the period:		
Revaluation gain on buildings	-	137,076
Deferred income tax	-	(6,854)
At end of year	**1,012,125**	**1,012,125**

Notes (Continued)

31 Capital and reserves (continued)

(d) Statutory credit risk reserve

The loan loss reserve represents excess of the loans and advances impairment provision determined in accordance with the Central Bank of Kenya's prudential guidelines compared with the requirements of IFRS 9 - Financial instruments. These reserves are not available for distribution.

The movement during the year is as below:

	2021 Shs'000	2020 Shs'000
At start of year	3,653,888	2,668,069
Transfer	(240,371)	985,819
At end of year	**3,413,517**	**3,653,888**

(e) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of debt investments and treasury bonds held at FVOCI until the investment is derecognised when the net changes are recycled to profit or loss.

	2021 Shs'000	2020 Shs'000
At start of year	13,972	67,012
Change in fair value during the year:		
Fair value movement on treasury bonds classified as FVOCI	(299)	(75,772)
Less: Deferred income tax	90	22,732
At end of year	**13,763**	**13,972**

32 Government of Kenya income notes and loans

Government of Kenya – Income Notes	**52,860**	**52,860**

The Government of Kenya income notes relate to a loan issued by the Government of Kenya and Commonwealth Development Corporation on 15 July 1981. The loan is not secured by the Group's assets and does not carry a redemption date. Interest is payable on the loan at a fixed rate of 8.25% per annum.

Notes (Continued)

33 Cash flows from operating activities

	Note	Group 2021 Shs'000	2020 Shs'000
Loss before income tax		(875,753)	(1,775,882)
Adjustments for:			
Group's share of loss from investments in joint ventures	21	15,740	96,133
Interest expense on lease liabilities	35	71,616	66,488
Depreciation of property and equipment	19	113,599	150,162
Amortisation of right of use asset	35	86,685	91,951
Depreciation of investment property	29	24,545	31,348
Amortisation of intangible assets	20	231,139	226,931
Property fund impairment	24	(55,956)	463,789
Loss on sale of property and equipment		(1,192)	(7)
Unrealised exchange gains on cash		-	(13,964)
Increase in customer and banks deposits	27	(2,818,088)	3,206,371
Increase/(decrease) in balances with Central Bank of Kenya – Cash Reserve Ratio (CRR)	16	92,624	261,520
Movement in loans and advances to customers	22	2,305,848	1,781,265
Purchase of Government securities	18	(9,835,438)	(4,530,520)
Sale of Government securities	18	10,170,588	1,710,720
Decrease in inventory	25	51,764	-
Increase in other assets	23	(91,351)	(72,742)
Increase/ (decrease) in other liabilities	28	280,184	(340,208)
Fair value loss on derivatives	8	28,982	-
Exchange rate difference		1,287	-
Net cash flows from operating activities before tax		**(203,177)**	**1,353,355**
Income tax paid		(7,669)	(197,157)
Net cash flows from operating activities		**(210,846)**	**1,156,198**

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	Group 2021 Shs'000	2020 Shs'000
Cash in hand and bank (Note 16 (a))	1,112,462	595,981
Balances due from banking institutions (Note 16 (a))	33,311	202,435
Investments maturing within 90 days (Note 18)	40,000	260,000
	1,185,773	**1,058,416**

Notes (Continued)

33 Cash flows from operating activities (continued)

	Company	
	2021 Shs'000	**2020 Shs'000**
Loss before income tax	(34,070)	(239,335)
Depreciation on property and equipment	134	132
Impairment of investment in subsidiaries	-	196,088
Decrease in other assets	(8,712)	68,834
(Decrease) / Increase in other liabilities	41,167	(22,492)
Loss on sales of property and equipment	-	-
Net cash flows from operating activities before tax	**(1,481)**	**3,227**
Income tax paid	(5,265)	(7,525)
Net cash flows from operating activities	**(6,746)**	**(4,298)**

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	Company	
	2021 Shs'000	**2020 Shs'000**
Cash in hand and bank	**2,317**	**20,196**

34 Off-balance sheet contingencies and commitments

(a) Guarantees, letters of credit and commitments

As at 31 December 2021, the Group had issued guarantees and letters of credit in the ordinary course of business to third parties as shown below.

	Company	
	2021 Shs'000	**2020 Shs'000**
Guarantees	976,588	685,516
Letters of credit	169,046	136,209
	1,145,634	821,785

Commitments contracted for at the reporting date but not recognised in the financial statements are as follows:

Notes (Continued)

34 Off-balance sheet contingencies and commitments (continued)

	2021 Shs'000	2020 Shs'000
Loans approved but not yet disbursed	**1,214,932**	**1,284,318**

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

31 December 2021	0 - 3 months Shs' 000	3 - 6 months Shs' 000	6 - 12 months Shs' 000	1 - 5 Years Shs' 000	Total Shs' 000
Guarantees	36,080	151,015	615,480	174,013	976,588
Letters of credit	-	135,780	33,266	-	169,046
Loans approved but not yet disbursed	-	1,214,932	-	-	1,214,932
	36,080	**1,501,727**	**648,746**	**174,013**	**2,360,566**
31 December 2020					
Guarantees	75,959	92,810	476,800	40,047	685,616
Letters of credit	136,209	-	-	-	136,209
Loans approved but not yet disbursed	-	1,284,318	-	-	1,284,318
	212,168	**1,377,128**	**476,800**	**40,047**	**2,106,143**

(b) Other contingent liabilities

In the ordinary course of business, the Group is a defendant in various litigations and claims. Although there can be no assurances, the Directors believe, based on the information currently available and legal advice, that the claims can successfully be defended and therefore no provision has been made in the financial statements.

The significant claims are described below:

ICEA LION Group (ICEA) against HFC Limited and others for a loss of Shs 120 million which were funds withdrawn by the third defendant, ICEA's former Assistant General Manager, and deposited with Nyaga Stockbrokers.

34 Off-balance sheet contingencies and commitments (continued)

(b) Other contingent liabilities

- Sharok Kher Mohamed sued HFC Limited for selling his property by public auction in 2000. In 2015, the High Court awarded the plaintiff Shs 20 million plus interest from January 2000. HFC appealed against the judgement to the Court of Appeal. The Court of Appeal in 2019 upheld the judgement of the High Court. The amount as at date of Court of Appeal ruling was Shs 1.2 billion. During the year contact was established with the Claimant (Sharok Kher) and negotiations resulted in an agreed settlement of Shs 239 million. When served with notification of the settlement, the Advocate representing the Principal Debtor filed an application in the Supreme court on the issue of Representation. On 4 September 2020, the Supreme Court dismissed the application on the issue of Representation for want of jurisdiction. Following dismissal of the application, HF filed a consent entering judgement in favour of Sharok Kher in the sum of Shs. 239 million to be paid in instalments as set out in the Settlement Agreement. On 25 September 2020, the Supreme court adopted the said consent as an order of the court. The Bank continues to comply with the settlement terms, subject to the conservatory orders issued by the High Court placing a lien of the sum of Shs 65 Million out of the settlement sum of Shs 239 million

35 Leases

The Group as a lessee

The Group leases a number of branch and office premises. The leases typically run for a period between 3 and 10 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The Group also leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

(a) Right-of-use asset

	2021 Shs'000	2020 Shs'000
At start of year	895,594	895,594
Accumulated depreciation	(439,105)	(352,420)
At end of year	**456,489**	**543,174**

Notes (Continued)

35 Leases (continued)

Year ended 31 December 2021	Leasehold land Shs '000	Office premises Shs '000	IT equipment Shs '000	Total Shs '000
Cost				
At start of year and end of year	54,612	621,079	219,903	895,594
	54,612	**621,079**	**219,903**	**895,594**
Accumulated depreciation				
At start of year	(12,432)	(295,361)	(44,627)	(352,420)
Charge for the year	(462)	(58,735)	(27,488)	(86,685)
At end of year	**(12,894)**	**(354,096)**	**(72,115)**	**(439,105)**
	41,718	**266,983**	**147,788**	**456,489**

Year ended 31 December 2020	Leasehold land Shs '000	Office premises Shs '000	IT equipment Shs '000	Total Shs '000
Cost				
At start and of year	**54,612**	**621,079**	**219,903**	**895,594**
Accumulated depreciation				
At start and end of year	(11,971)	(237,045)	(11,453)	(260,469)
Charge for the year	(461)	(58,316)	(33,174)	(91,951)
At end of year	**(12,432)**	**(295,361)**	**(44,627)**	**(352,420)**
	42,180	**325,718**	**175,276**	**543,174**

Notes (Continued)

35 Leases (continued)

(a) Right-of-use assets (continued)

At 31 December 2021, the future minimum lease payments under non-cancellable operating leases were payable as follows:

Maturity analysis – Contractual undiscounted cash flows	2021 Shs'000	2020 Shs'000
Less than one year	148,019	139,367
Between one and five years	654,111	720,861
More than five years	30,184	84,141
	832,314	**944,369**

(b) Amounts recognised in profit or loss

	2021 Shs'000	2020 Shs'000
Leases under IFRS 16		
Interest on lease liabilities	71,616	66,488
Interest on asset retirement obligation	1,906	1,684
Depreciation of Right-of-use assets	86,685	91,951

(c) Amounts recognised in statement of cash flows

	2021 Shs'000	2020 Shs'000
Total cash outflow for leases	**142,964**	**130,488**
(d) Lease liabilities		
Current	142,810	142,921
Non-current	436,593	507,830
	579,403	**650,751**
Movement in lease liabilities		
At start of year	650,751	714,751
Interest expense charged	71,616	66,488
Principal elements of lease payments	(142,964)	(130,488)
At end of year	**579,403**	**650,751**

Notes (Continued)

35 Leases (continued)

(d) Lease liabilities (continued)

Some leases of office premises contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Group as a lessor

The Group leases out part of its property. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income earned during the period was Shs.42,342,000 (2020: Shs 50,844,927).

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date

	2021	2020
Operating leases under IFRS 16	**Shs'000**	**Shs'000**
Within one year	73,923	80,920
One to five years	134,116	198,332
After five years	-	378
	208,039	**279,630**

Leases are negotiated for an average term of 6 years and rentals are reviewed every two years. The leases are cancellable with a penalty when the tenants do not give three months' notice to vacate the premises.

36 Related parties and related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both. HF Group Plc is listed on the Nairobi Securities Exchange. The largest shareholder of HF Group Plc is Britam Holdings Plc, which has 48% shareholding. There are other companies which are related to HFC Limited through common shareholdings or common directorships.

Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Group (including subsidiaries) and its employees. The Group considers the Board of Directors, executive and non-executive directors, to be key management personnel for the purposes of IAS 24 - related party disclosures.

The Group enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business.

Notes (Continued)

36 Related parties and related party transactions (continued)

(a) Loans to key management personnel

	Group	
	2021 Shs'000	2020 Shs'000
At start of year	159,741	156,493
Loans disbursed	82,943	34,646
Repayments	(41,751)	(31,398)
At end of year	**200,933**	**159,741**
Current	32,637	31,716
Non - current	168,296	128,025
Total	**200,933**	**159,741**

(b) Loans to employees

	Group	
	2021 Shs'000	2020 Shs'000
At start of year	793,613	813,449
Loans advanced during the year	404,169	242,248
Loans repayments received	(425,987)	(262,084)
At end of year	**771,795**	**793,613**
Comprising:		
Mortgages and advances	565,842	591,323
Personal loans	193,653	191,686
Staff car loans	12,300	10,604
	771,795	**793,613**
Current	200,667	202,290
Non - current	571,128	591,323
Total	**771,795**	**793,613**

Interest income arising from these employees' facilities amounted to Shs 52,936,000 (2020: Shs 56,557,318).

Notes (Continued)

36 Related parties and related party transactions (continued)

(c) Remuneration to directors and key management personnel

	Group	
	2021 Shs'000	2020 Shs'000
Remuneration to executive directors:		
Company*	50,293	51,144
Group**	16,865	15,027
Remuneration to key management	140,807	133,485
	207,965	**199,656**

* Remuneration to the executive directors of the parent Company, HF Group Plc

** Remuneration to the executive directors of the subsidiary companies in the Group.

	Group	
	2021 Shs'000	2020 Shs'000
Remuneration to key management:		
Salaries and short-term benefits	140,807	133,485
Pension	21,162	22,277
	161,969	**155,762**

(d) Transactions with Britam Insurance Company (Kenya) Limited

	Group	
	2021 Shs'000	2020 Shs'000
Bank balances held with HFC Limited	**64,582**	**96,246**

(e) Transactions with Britam Asset Managers Limited

	Group	
	2021 Shs'000	2020 Shs'000
Bank balances held with HFC Limited	**-**	**1,208,330**

Notes (Continued)

(f) Transactions with Housing Finance Development and Investment LLP

	Group	
	2021 Shs'000	**2020 Shs'000**
Bank balances held with HFC Limited	12,772	13,501
Loans and other receivables	2,168,658	2,093,121
	2,181,430	**2,106,622**
(g) Transactions with Precious Heights Limited		
Bank balances held with HFC Limited	6,889	4,865
(h) Transactions with Kahawa Downs Limited		
Bank balances held with HFC Limited	86,263	62,366
(h) Transactions with Housing Finance Development and Investment Property Fund		
Bank balances held with HFC Limited	175,792	32,315
(j) Transactions with Pioneer International College		
Loans and advances held with HFC Limited	102,288	136,186
(k) Transactions with Agricultural and Industrial Holdings Ltd		
Loans and advances held with HFC Limited	97,292	113,137

37 Derivative Liabilities

The Bank's derivative financial instruments are entered into for trading purposes. The fair value of all derivatives is recognised in the statement of financial position and is only netted to the extent that there is both a legal right of set-off and an intention to settle on a net basis, or the intention to realise the derivative asset and settle the derivative liability simultaneously. At 31 December 2021 all derivatives are to be settled on a gross basis.

	Notional contract amount Shs'000	2021 Shs'000	2020 Shs'000
Foreign exchange contracts	**2,507,776**	**28,982**	**-**

Proxy Form

HF GROUP PLC
(the "Company")

CDC A/C No:
Shareholder No:
ID/Registration No:

FORM OF PROXY-2022 ANNUAL GENERAL MEETING(AGM)

Please complete in BLOCKS CAPITALS

I/We ____

of ____

Being a shareholder /shareholders of HF Group Plc hereby appoint ______________________

____

of ____

or failing him/her the Chairlady of the meeting in respect of my………………………………(Number of shares) as my/our proxy to attend, represent and vote for me/us on my/our behalf at the Annual General Meeting of the company to be held electronically on Friday 20th May 2022 at 10.00 a.m and at any adjournment thereof.

I/WE direct my/our proxy to vote on the following resolutions as I/WE have indicated by marking the appropriate box with 'X'. If no indication is given, my/our proxy will vote or withhold his or her discretion and I/WE authorise my/our proxy to vote (or withhold his or her vote) as he or she thinks fit in relation to any other matter which is properly put before the meeting.

Please clearly mark the box below to instruct your proxy how to vote

Item No.	Resolutions:	For	Against	Withheld
1)	To receive and, if approved, adopt the audited Balance Sheet and Accounts for the year ended 31 December 2021, together with the Chairlady's, the Directors' and Auditor's Reports thereon.			
2)	In accordance with Article 105 of the Company's Articles of Association the following Directors retire by rotation and being eligible, offer themselves for re-election. • Dr. Benson I. Wairegi, EBS • Ms. Constance W. Gakonyo, CBS			
3)	In accordance with Article 104 of the Company's Articles of Association the following Directors retire at this meeting, and being eligible, offer themselves for re-election. • Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH • Mr. Charles Kimani Njuguna • Dr. Anthony Omerikwa Opare, MBS			
4)	In accordance with the provisions of Section 769 of the Companies Act, 2015 the following Directors, being members of the Group Board Audit & Risk Committee be elected individually to continue to serve as members of the said Committee:- • Ms. Felister W. Kembi • Dr. Anthony Omerikwa Opare, MBS			

5)	To approve the Directors Remuneration Report as detailed in the Annual Report for the year ended 31st December 2021.			
6)	To appoint PricewaterhouseCoopers (PWC) Kenya as the auditors of the Company in accordance with Sections 721 of the Companies Act, No. 17 of 2015 and to authorize the Directors to fix the remuneration of the auditors in terms of section 724 of the said Companies Act.			

HF GROUP PLC **ELECTRONIC COMMUNCATION PREFERENCE FORM**

Please complete in **BLOCK CAPITALS**

Full name of member(s)……………………………………………………………………………………………………

………

Address……

………

………

CDSC No (If known……………………………………………………………………………………………………
(This can found on your CDSC Statement)

Mobile Number (of the proxy holder)………………………………………………………………………………

Date: ………

Please tick the boxes below and return to Image Registrar at P.O Box 92877, GPO 00100,5th Floor, ABSA Towers (formerly Barclays Plaza), Loita Street.

Approval of Registration

I/WE approve to register to participate in the virtual AGM to be held on Friday 20th May 2022.

Consent for use of the Mobile Number provided

I/WE would give/our consent for the use of the mobile number provided for purposes of voting at the AGM.

Signature………

Notes:

1. **If a member is unable to attend personally, this Proxy Form should be completed and returned to the** Company Secretary P.O. Box 30088 GPO 00100 Nairobi or physically to the registered office of the Company, or to Image Registrars on P. O. Box 9287 – 00100, Nairobi, Kenya or through their email address hfgroupagm@image.co.ke to arrive not later than 10:00 a.m. on 18th may 2022 at 10.00am i.e. 48 hours before the meeting or any adjournment thereof.
2. In case of a member being a corporate body, the Proxy Form must be under its common seal or under the hand of an officer or duly authorized attorney of such corporate body.
3. As a shareholder you are entitled to appoint one or more proxies to exercise all or any of your shareholder rights to attend and to speak and vote on your behalf at the meeting. The appointment of the Chairlady of the meeting as proxy has been included for convenience. To appoint as a proxy any other person, delete the words "the Chairlady of the Meeting or" and insert the full name of your proxy in the space provided. A proxy need not to be a shareholder of the Company.
4. Completion and submission of the form of proxy will not prevent you from attending the meeting and voting at the meeting in person, in which case any votes cast by your proxy will be excluded.
5. To be valid the form of proxy should be completed, signed and delivered (together with a power of attorney or other authority (if any) under which it is assigned or a notarized certified copy of such power or authority) to Company Secretary, P.O. Box 30088 GPO 00100 Nairobi or Image Registrars, Absa Towers (formerly Barclays Plaza), 5th Floor, Loita Street and address P.O. Box 9287-00100 Nairobi not later than 10.00 am on18th May 2022 or, in the case of a poll taken subsequent to the date of the meeting, or any adjourned meeting, not less than 24 hours before the time appointed for the taking of the poll which is taken more than 48 hours after the day of the meeting or adjourned meeting.
6. In the case of a company being a shareholder then this proxy form must be executed under its common seal or signed on its behalf by an officer of that company or an authorized attorney for that company.

Fomu ya uwakala

HF GROUP PLC
(''Kampuni")

Akaunti ya CDC:
Namb. ya mwanahisa:
ID/Usajili Namb:

FOMU YA UWAKALA - MKUTANO MKUU WA PAMOJA WA MWAKA 2022

Tafadhali jaza kwa HERUFI KUBWA

Mimi /Sisi ____

Kutoka ____

Kama Mwanahisa / Wanahisa wa HF Group Plc twamteua ______________________

____

Kutoka ____

____

au akikosa Mwenyekiti wa Mkutano kwa mujibu wa idadi ya hisa kama wakala wangu/wetu kuhudhuria, kuwakilisha na kupiga kura kwa niaba yangu/ sisi wakati wa mkutano mkuu wa pamoja wa mwaka wa kampuni utakaofanyika kwa mbinu ya kielektroniki Ijumaa Mei 20, 2022 kuanzia saa nne asubuhi au kuahirishwa kwake.

Kama mwanahisa wa Kampuni namteua Mwenyekiti wa Mkutano au (ona) nukuu 1 na 6 ....(jina la wakala) kwa mujibu wa ....(idadi ya hisa) kama wakala wangu wetu kuhudhuria, kuwakilisha na kupiga kura kwa niaba yangu/ yetu wakati wa mkutano wa pamoja wa mwaka wa kampuni utakaofanyika kwa mfumo wa kielektroniki siku ya Ijumaa Mei 20, 2022 kuanzia saa nne asubuhi au kuahirishwa kwake.

MIMI/ SISI naamuru wakala wangu/ wetu kupiga kura kuhusu azimio lifuatalo kama nilivyo/ tulivyoonyesha kwa kuweka alama ya X kwenye sanduku linalofaa. Endapo hakutakuwa na ishara iliyotolewa,wakala wangu/ wetu atapiga kura au kuficha jina lake na MIMI/ SISI nampa uhuru wangu/ wakala wetu kupiga kura (au kuficha kura yake) kama atakavyoona inafaa kuhusiana na swala lingine lolote ambalo litakuwa limewasilishwa mbele ya mkutano.

Tafadhali tia vyema alama kwenye sanduku kumwamuru wakala wako jinsi ya kupiga kura

Item No.	Maazimio:	Naunga mkono	Nakataa	Nanyamaza
1)	Kupokea na endapo itakubaliwa, kupitisha mizania iliyofanyiwa ukaguzi na hesabu za pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2021 pamoja na ripoti kutoka kwa Mwenyekiti, Wakurugenzi na Wakaguzi wa Pesa			
2)	Kufungamana na kifungu nambari 105 cha sheria za kampuni, wakurugenzi wafuatao wanastaafu kwa zamu na kwa kuwa hali inawaruhusu, wamejitokeza ili kuchaguliwa tena. • Dkt. Benson I. Wairegi, EBS • Bi. Constance W. Gakonyo, CBS			

3)	Kufungamana na kifungu nambari 104 cha sheria za kampuni, wakurugenzi wafuatao wanastaafu wakati wa mkutano huu na kwa kuwa hali inawaruhusu, wamejitokeza ili kuchaguliwa tena. • Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH • Bw. Charles Kimani Njuguna • Dkt. Anthony Omerikwa Opare, MBS			
4)	Kwa mujibu wa kipengele nambari 769 cha sheria za makampuni ya mwaka 2015,wakurugenzi wafuatao ambao ni wanachama wa kujitegemea katika kamati ya kundi kuhusu uhasibu na athari waendelee mbele na jukumu la kamati husika;- • Bi. Felister W. Kembi • Dkt. Anthony Omerikwa Opare, MBS			
5)	Kupitisha ripoti ya marupurupu ya wakurugenzi kwa kipindi cha mwaka uliomalizika Desemba 31, 2021 kama ilivyofafanuliwa kupitia ripoti ya mwaka.			
6)	Kuwateua PricewaterhouseCoopers (PWC) Kenya kama wahasibu wa kampuni kwa mujibu wa sehemu ya 721 sheria za makampuni nambari 17 ya mwaka 2015 na kuwaamuru wakurugenzi kuamua marupurupu yao kufungamana na sehemu ya 724 ya sheria za kampuni iliyotajwa.			

FOMU YA MAWASILIANO YA KIELEKTRONIKI YA HF GROUP PLC

Tafadhali jaza kwa kutumia **HERUFI KUBWA**

Majina kamili ya mwanachama/ wanachama..

....

....

Anwani..

....

....

Namba CDSC (endapo inajulikana ....
(Hii inaweza kupatikana kupitia taarifa yako ya CDSC)

Nambari ya simu ya mkono (ya anayewakilishwa na wakala)..

Tarehe: ....

Tafadhali weka alama kwenye sanduku lililoko hapa chini na kurejesha kwa Image Registrar Slp 92877, GPO 00100,Orofa ya 5, ABSA Towers (zamani ikijulikana kama Barclays Plaza), Loita Street.

Kuidhinishwa kwa usajili

MIMI/ SISI twaidhinisha kusajiliwa ili kushiriki kwenye mkutano usio wa kukutana pamoja utakaofanyika siku ya Ijumaa Mei 20, 2022

Ruhusa kwa matumizi ya nambari ya simu iliyotolewa

MIMI/ SISI tumetoa/ nimetoa ruhusa kwa matumizi ya nambari ya simu iliyotolewa kwa madhumuni ya kupiga kura wakati wa mkutano wa pamoja wa Mwaka

Sahihi..

Nukuu:

1. **Endapo mwanachama hataweza kuhudhuria mwenyewe, fomu hii ya uwakala ijazwe kikamilifu na kutumwa kwa;** Company Secretary S.L.P. 30088 GPO 00100 Nairobi au iwasilishwe moja kwa moja katika ofisi ya kampuni iliyosajiliwa au kwa, Image Registrars S.L.P 9287 – 00100, Nairobi, Kenya au kupitia anwani ya barua pepe hfgroupagm@image.co.ke ili kupokelewa kabla ya saa nne asubuhi Mei 18, 2022 au saa 48 kabla ya kuanza kwa mkutano au kuahirishwa kwake.
2. Endapo mwanachama ni shirika, ni lazima fomu ya uwakala kupigwa mhuri wake rasmi na kutiwa sahihi na afisa au wakili aliyeidhinishwa na shirika kama hilo.
3. Kama mwanahisa, una ruhusa kumteua wakala mmoja au zaidi kutekeleza majukumu yako yote kama mwanahisa, kuongea na kupiga kura kwa niaba yako wakati wa mkutano. Uteuzi wa mwenyekiti wa mkutano kama wakala wako umeorodheshwa ili kuwa rahisi.Ili kumteua mtu mwingine kama wakala, futilia maneno '' the Chairlady of the Meeting'' na badala yake kuingiza majina kamili ya wakala wako katika nafasi iliyoachwa wazi. Si lazima kwa wakala wako kuwa mwanahisa wa kampuni.
4. Ujazaji na uwasilishaji wa fomu ya uwakala hautakuzuia wewe kuhudhuria mkutano na kupiga kura binafsi. Kwa sababu hiyo, kura iliyopigwa na wakala wako haitahesabiwa
5. Ili kuwa halali, fomu ya uwakala inafaa kujazwa, kutiwa sahihi na kuwasilishwa (pamoja na sahihi ya wakili au mwakilishi mwingine (endapo yuko) ambaye ameidhinishwa au nakala iliyotiwa sahihi na mtu kama huyo au mamlaka) kwa Company Secretary, S.L.P 30088 GPO 00100 Nairobi au Image Registrars, Absa Towers (zamani Barclays Plaza), Orofa ya 5, Loita Street au S.L.P 9287-00100 Nairobi kabla ya saa nne asubuhi Mei 18, 2022 au ,endapo kutakuwa na kura itakayopigwa baada ya tarehe ya mkutano, au kuahirishwa kwake, kabla ya saa 24 ya wakati uliotengwa kupigwa kwa kura ambayo inapigwa zaidi ya saa 48 baada ya siku mkutano au kuahirishwa kwake.
6. Kwa hali ambapo shirika ni mwanahisa, fomu hii ya uwakala ijazwe na kutiwa mhuri wake rasmi au kuweka sahihi kwa niaba yake na afisa wa kampuni hiyo au wakili wake aliyeidhinishwa

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